

AEGON NV  
Form 20-F  
March 24, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

-

**FORM 20-F**

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(Mark One)

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10882

-

**Aegon N.V.**

(Exact name of Registrant as specified in its charter)

-

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Not Applicable

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

J.H.P.M. van Rossum

Executive Vice President and Corporate Controller

Aegon N.V.

Aegonplein 50, 2501 CB The Hague, The Netherlands

+31-70-3445458

[Jurgen.vanRossum@aegon.com](mailto:Jurgen.vanRossum@aegon.com)

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

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

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:  
2,074,548,842 common shares and 585,022,160 common shares B

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

Yes No

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

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

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

Large accelerated filer   Accelerated filer   Non-accelerated filer

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

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

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

Item 17   Item 18

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

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Annual Report on Form 20-F 2016

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**Table of Contents**Strategic information **Introduction** 3**Introduction****Filing**

This document contains Aegon's Annual Report as filed on Form 20-F (also referred to in this document as Annual Report) with the United States Securities and Exchange Commission (SEC).

**About this report**

This report serves as Aegon's Annual Report for the year ended December 31, 2016. It presents the consolidated financial statements of Aegon pages 131-303 and the stand-alone financial statements of Aegon N.V. pages 305-320, both prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), and Part 9 of Book 2 of the Dutch Civil Code.

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

**Presentation of certain information**

References to the NYSE are to the New York Stock Exchange and references to the SEC are to the US Securities and Exchange Commission. Aegon uses EUR and euro when referring to the lawful currency of the member states of the European Monetary Union; USD, and US dollar when referring to the lawful currency of the United States of America; GBP, UK pound and pound sterling when referring to the lawful currency of the United Kingdom; CAD Canadian dollar when referring to the lawful currency of Canada, and PLN when referring to the lawful currency of Poland.

Aegon prepares its consolidated financial statements in accordance with IFRS and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the U.S. SEC, including financial information contained in this Annual Report on Form 20-F. Aegon's accounting policies and its use of various options under IFRS are described in note 2 to the consolidated financial statements.

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

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

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

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### **4 Strategic information [CEO letter](#)**

#### **[CEO letter](#)**

[In 2016, we made further progress in transforming our company and in delivering on our targets, despite a challenging macro-economic environment.](#)

From the Brexit referendum in the UK to the presidential election in the US, 2016 was a year defined by a series of events that had profound effects on the global economy. Uncertainty and instability led to considerable volatility on financial markets, interest rates decreased to historically low levels before rising later in the year, and the trend of governments retreating from providing retirement security continued. Against this backdrop, Aegon's work of bringing certainty in an uncertain world has never been more important, and I'm proud of how we delivered on our promises to our many millions of customers worldwide during the year – paying out over EUR 59 billion in claims, benefits and plan withdrawals.

#### **[Our financial performance](#)**

I am pleased that Aegon's Solvency II ratio remained well within our target range of 140 to 170 percent throughout the year – despite the widespread economic volatility. The ratio on December 31, 2016, of 157 percent was above the midpoint of our target range, and this consistent performance throughout the year is a demonstration of our company's diligent approach to managing risk and protecting our balance sheet. There is nonetheless potential for renewed volatility and uncertainty around the calculation of this ratio, and we remain mindful and focused on such risks.

2016 was once again a year of strong sales – especially in terms of our fee businesses, in particular Asset Management and I am therefore happy that we reached over EUR 100 billion of gross deposits for the very first time, which contributed to EUR 3 billion net deposits. This strong performance was above all a reflection of the need and relevance of our products and services, the strength of our franchise, and the trust our loyal customers continue to place in us.

While we experienced some significant headwinds this year in the form of market volatility and some adverse claims experience – both of which had an impact on earnings – we are on track to deliver on our 2018 financial targets. Moreover, I am pleased that we successfully increased capital returns to our shareholders this year as part of our commitment to return EUR 2.1 billion to shareholders in the period 2016-2018.

#### **[Transforming our company](#)**

Meeting our purpose of helping people achieve a lifetime of financial security demands that we constantly evolve as a business so that we can continue to serve our customers' changing needs. For this reason we, once again, invested significantly in developing innovative digital solutions – from new apps and customer-friendly platforms that enable people to better understand their finances, to exploring the future of the insurance industry through co-launching the Blockchain Initiative B3i.

The environment in which we operate is changing fast, and over the course of the year we continued to demonstrate how we are adapting to the new landscape. In the UK, we divested our annuity book and acquired Cofunds and BlackRock's defined contribution recordkeeping business. This successfully completed the transformation of our UK



business from a largely traditional pension business into a market-leading, cost efficient and scalable platform business, with over 3 million customers and approximately 100 billion pounds of assets under administration. We also continued the very significant restructuring of our US business, which has brought all of Transamerica's business units together into a single, customer-facing company, and gives our customers easier access to all our different products and services.

By transforming Aegon's US operations from distinct business lines into one, functionally-organized business, we identified potential for cost savings. These savings constituted the bulk of the group's original 2018 expense savings target of EUR 200 million, announced in January 2016. Meeting these expense reductions was a key priority for our business throughout the year as we continued to focus on becoming more efficient, more profitable, raising our returns, investing in new digital solutions, and deploying our capital in the best way for our company and stakeholders. By accelerating the execution of our strategy, we were able to exceed our expense savings target for the year, achieving a total of EUR 110 million in run-rate savings. As a result, this enabled us to announce that our group 2018 run-rate expense savings target would rise to EUR 350 million.

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**Our communities**

Although this Annual Report focusses primarily on Aegon's financial performance, we also choose to publish an integrated annual review. This outlines our company's wider impact on all the communities on which we have an impact, and how Aegon creates and shares value for stakeholders by letting customers, investors, business partners, local communities and employees tell their story.

**Our employees and shareholders**

On behalf of Aegon's Management Board, I would like to express my sincere thanks to over 29,000 colleagues for all that they do. 2016 was a year of significant change for our company, and it would have been impossible to continue to provide the very best service to our millions of customers around the world without their extraordinary professionalism, ingenuity and dedication.

I would also like to thank our many shareholders around the world. We value your continued interest, and are grateful for the trust you place in our company. Aegon achieved much over the last twelve months, and I am confident that by successfully executing our strategy we will continue to become a more efficient and customer-centric organization. By doing so we will be able to secure long-term, sustainable growth, and thereby meet our commitments to all our valued stakeholders.

**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](#)**

##### **[Alex Wynaendts \(1960, Dutch\)](#)**

###### **[CEO and Chairman of the Executive and Management Boards of Aegon N.V.](#)**

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 Aegon's Executive Board in 2003,

overseeing the Company's international growth strategy.

In April 2007, Mr. Wynaendts was named Aegon's Chief Operating Officer. A year later, he became CEO and Chairman of Aegon's Executive Board and Management Board. Mr. Wynaendts was reappointed at the Annual General Meeting of Shareholders in 2015. His third term of office ends in 2019. Mr. Wynaendts has been an Independent Director of the Board of Air France-KLM S.A. since May 2016. Mr. Wynaendts has held no other external board memberships in the past five years.

##### **[Darryl Button \(1969, Canadian\)](#)**

###### **[CFO and member of the Executive and Management Boards of Aegon N.V. \(until December 1, 2016\)<sup>1</sup>](#)**

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 member of the Executive Board of Aegon. In addition, Mr. Button is a Board member at the American Chamber of Commerce in the Netherlands. He has held no other external board memberships in the past five years.

## Composition of the Management Board

**Alex Wynaendts: see above**

**Darryl Button: see above**

### **Mark Bloom (1964, American)**

Global Chief Technology Officer and member of the Management Board, Aegon N.V.

Mark Bloom has over 30 years' experience in information technology. He joined Aegon from Citi in February 2016, where he served as Global Head of Consumer Digital and Operations Technology, responsible for Digital, Data and Operations technology solutions and innovations, including Citi's online and mobile banking applications, ATMs, and Call Center technologies.

Prior to that, he held a number of technology leadership positions in financial services and the aerospace industry. At Aegon, as Global Chief Technology Officer, Mr. Bloom is responsible for leading the Company's technology and innovation activities, including leadership of Aegon's digital initiatives, leveraging technology to drive efficiency and focus on improving the customer experience. Mr. Bloom was appointed as a member of Aegon's Management Board in August 2016. Mr. Bloom has held no other external board memberships in the past five years.

<sup>1</sup> On September 6, 2016, Aegon announced Mr. Button's decision to step down as CFO and to leave the Company on December 1, 2016. On November 29, 2016, Aegon announced that its Supervisory Board intends to nominate Matthew J. Rider (1963, US Citizen) for appointment as CFO and member of the Executive Board at its Annual General Meeting of Shareholders on May 19, 2017.

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Strategic information **Composition of the Executive Board and the Management Board** 7

**Adrian Grace (1963, British)**

CEO of Aegon UK and member of the Management Board Aegon N.V.

Adrian held various roles within GE capital, Sage Group Inc. and joined Barclays Bank in 2004 as Chief Executive of the Insurance Business. In 2007 he joined HBOS after which he started with

Aegon as CEO of the UK in 2011. He became member of the Management Board of Aegon in 2012 and is a non-executive Director at Clydesdale Bank and a member of the Financial Conduct Authority practitioners panel. Mr. Grace was member of the Board of Scottish Financial Enterprise up until June 2013 and held no other external board memberships in the past five years.

**Allegra van Hövell-Patrizi (1974, Italian)**

Chief Risk Officer of Aegon N.V. and member of the Management Board Aegon N.V.

Allegra van Hövell-Patrizi began her career in 1996 at McKinsey & Company, specializing in financial institutions. After several years as a partner there, she joined F&C Asset Management in 2007 as a member of the Management Committee. In 2009, she joined Prudential plc where she became Group Risk Director,

and a member of the Group Executive Risk Committee, as well as the PUSL Board (within the Prudential plc group). Ms. Van Hövell-Patrizi joined Aegon at the end of 2015. She was appointed Chief Risk Officer of Aegon N.V. and a member of Aegon's Management Board in January 2016. Ms. Van Hövell-Patrizi has held no other external board memberships in the past five years.

**Marco Keim (1962, Dutch)**

CEO of Aegon the Netherlands and member of the Management Board Aegon N.V.

Marco Keim began his career with accountancy firm Coopers & Lybrand / Van Dien. He has also worked at aircraft manufacturer Fokker Aircraft and NS Reizigers, part of the Dutch railway company, NS Group. In 1999, he joined

Swiss Life in the Netherlands as a member of the Board, and was appointed CEO three years later.

Mr. Keim was appointed CEO of Aegon the Netherlands and member of Aegon's Management Board in June 2008. Mr. Keim was a member of the Supervisory Board of AMVEST Vastgoed B.V. until June 2013, and is a member of the Supervisory Board of Eneco Holding N.V. In addition, Mr. Keim holds board positions at VNO-NCW and at Verbond van Verzekeraars. Mr. Keim has held no other external board memberships in the past five years<sup>1</sup>.

### **Gábor Kepecs (1954, Hungarian)**

[CEO of Aegon Central & Eastern Europe and member of the Management Board Aegon N.V.](#)

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 in Hungary and across the wider Central & Eastern European region. Mr. Kepecs has been a member of Aegon's Management Board since 2008. Mr. Kepecs has not held any external board memberships in the past five years<sup>2</sup>.

1. On December 16, 2016, Aegon announced that Mr. Keim would become responsible for Aegon's activities in continental Europe as of January 1, 2017.
2. On December 16, 2016, Aegon announced that Mr. Kepecs will retire in 2017.

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### **8 Strategic information [Composition of the Executive Board and the Management Board](#)**

#### **[Onno van Klinken \(1969, Dutch\)](#)**

##### [General Counsel and member of the Management Board, Aegon N.V.](#)

Onno van Klinken has over 20 years' experience providing legal advice to a range of companies and leading Executive Board offices. Mr. Van Klinken started his career at Allen & Overy, and previously worked for Aegon between 2002 and 2006. He then served as Corporate Secretary for Royal Numico, the Dutch baby food company, before it was acquired by Groupe Danone. His next position was as General Counsel for the Dutch global mail and

express group TNT, where he served from 2008 until the legal demerger of the group in 2011. This was followed by General Counsel positions at D.E. Master Blenders 1753 and Corio N.V. Mr. Van Klinken rejoined Aegon in 2014 as General Counsel responsible for Group Legal, Regulatory Compliance, the Executive Board Office and Supervisor Relations. Mr. Van Klinken has been a member of Aegon's Management Board since August 2016. He has not held any external board memberships in the past five years.

#### **[Carla Mahieu \(1959, Dutch\)](#)**

##### [Global Head Human Resources and member of the Management Board Aegon N.V.](#)

Carla Mahieu started her career in 1984 at Royal Dutch Shell, where she held various management positions within Human Resources, Communications and Corporate Strategy. Following several years as a consultant during which time she worked for Spencer Stuart, among other companies, Ms. Mahieu was

appointed Senior Vice President Corporate Human Resource Management at Royal Philips Electronics in 2003. Ms. Mahieu joined Aegon in 2010 as Global Head Human Resources, and has been a member of Aegon's Management Board since August 2016. Ms. Mahieu is a former Board member of Duisenberg School of Finance and has been a member of the non-executive Board of the Royal BAM Group since 2011. Ms. Mahieu has held no other external board memberships in the past five years.

#### **[Mark Mullin \(1963, American\)](#)**

[CEO of Aegon Americas and member of the Management Board Aegon N.V.](#)

Mark Mullin has spent more than 20 years with Aegon in various management positions in both the United States and Europe. Mr. Mullin served as President and CEO of one of Aegon's US

subsidiaries, Diversified Investment Advisors, and as head of the Company's US 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. Mr. Mullin has not held any external board memberships in the past five years.

**Sarah Russell (1962, Australian)**

[CEO of Aegon Asset Management and member of the Management Committee](#)

Sarah Russell has 25 years' experience in international finance and asset management. Ms. Russell began her career at Toronto Dominion in Melbourne before joining ABN AMRO in 1994. She moved to the Netherlands in 2000, where she held a number of various roles, leading to her appointment as CEO of ABN AMRO's

asset management operations. Ms. Russell joined Aegon Asset Management as CEO in 2010, and has been a member of Aegon's Management Board since August 2016. Ms. Russell is a non-executive director of Nordea Bank AB since 2010 and also holds a Supervisory Board member position at Nederlandse Investeringsinstelling, and is Vice Chairman of the Supervisory Board of La Banque Postale Asset Management. Ms. Russell has held no other external board memberships in the past five years.



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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.

**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](#)**  
**[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 corporate seat and head office in the Netherlands.](#)

The Company'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 and joint ventures it employs over 29,000 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 that 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 a number of its asset management entities.

Aegon exists to help people achieve a lifetime of financial security. It uses a multi-brand, multichannel distribution approach to meet its customers' needs, and fosters an entrepreneurial spirit within its businesses, encouraging the development of innovative products and services.

Aegon has the following 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.

The separate operating segments of the Netherlands, the United Kingdom, Central & Eastern Europe and Spain & Portugal may be referred together as "Europe", but Europe is not an operating segment.

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**Table of Contents**Business overview **Selected financial data** 11**Selected financial data**

The financial results in this Annual Report are based on Aegon's consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the 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 131-303) of this Annual Report.

**Selected consolidated income statement information**

In EUR million (except per share amount)	<b>2016</b>	2015 <sup>1)</sup>	2014 <sup>1)</sup>	2013 <sup>1)</sup>	2012 <sup>1)</sup>
<b>Amounts based upon IFRS</b>					
Premium income	23,453	22,925	19,864	19,939	19,049
Investment income	7,788	8,525	8,148	7,909	8,413
Total revenues <sup>2)</sup>	33,655	33,902	30,157	29,805	29,327
Income/ (loss) before tax	610	(514)	916	1,236	2,024
Net income/ (loss)	438	(431)	766	1,003	1,628
<b>Earnings per common share</b>					
Basic	0.15	(0.27)	0.29	0.37	0.72
Diluted	0.15	(0.27)	0.29	0.37	0.72
<b>Earnings per common share B</b>					
Basic	-	(0.01)	0.01	0.01	-
Diluted	-	(0.01)	0.01	0.01	-

<sup>1</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

<sup>2</sup> 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)	<b>2016</b>	2015 <sup>1)</sup>	2014 <sup>1)</sup>	2013 <sup>1)</sup>	2012 <sup>1)</sup>
<b>Amounts based upon IFRS</b>					
Total assets	425,425	415,415	424,112	351,523	362,663
Insurance and investment contracts	344,844	343,558	321,384	283,234	277,596
Borrowings including subordinated and trust pass-through securities	14,076	13,361	15,049	12,009	13,416
Shareholders' equity	20,520	22,441	23,847	17,589	20,913

<sup>1</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents****12 Business overview Selected financial data****Number of common shares**

In thousands	2016	2015	2014	2013	2012
Balance at January 1	2,147,037	2,145,948	2,131,459	1,972,030	1,909,654
Share issuance	-	-	-	120,713	-
Stock dividends	10,629	1,089	14,489	38,716	62,376
Shares withdrawn	(83,117)	-	-	-	-
<b>Balance at end of period</b>	<b>2,074,549</b>	<b>2,147,037</b>	<b>2,145,948</b>	<b>2,131,459</b>	<b>1,972,030</b>

**Number of common shares B**

In thousands	2016	2015	2014	2013	2012
Balance at January 1	585,022	581,326	579,005	-	-
Share issuance	-	3,696	2,320	579,005	-
<b>Balance at end of period</b>	<b>585,022</b>	<b>585,022</b>	<b>581,326</b>	<b>579,005</b>	<b>-</b>

**Dividends**

Aegon declared interim and final dividends on common shares for the years 2012 through 2016 in the amounts set forth in the following table. The 2016 interim dividend amounted to EUR 0.13 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 16, 2016. At the General Meeting of Shareholders on May 19, 2017, 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 2016 to EUR 0.26. Proposed final dividend for the year and proposed total dividend 2016 per common share B are EUR 0.00325 and EUR 0.00650 respectively. Dividends in US dollars are calculated based on the foreign exchange reference rate (WM/Reuters closing spot exchange rate fixed at 5.00 pm Central European Summer Time ( CEST )) on the US-ex dividend day.

<b>Year</b>	EUR per common share <sup>1)</sup>			USD per common share <sup>1)</sup>		
	Interim	Final	Total	Interim	Final	Total
2012	0.10	0.11	0.21	0.12	0.14	0.26
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	0.25	0.13	0.15	0.28
2016	0.13	0.13 <sup>2)</sup>	0.26	0.15		

- <sup>1</sup> Paid at each shareholders' option in cash or in stock.
- <sup>2</sup> 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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**Table of Contents**Business overview **Selected financial data** 13**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 15, 2017, the USD exchange rate was EUR 1 = USD 1.0630.

The high and low exchange rates for the US dollar per euro for each of the last six months through February 2017 are set forth below:

<b>Closing rates</b>	Sept. 2016	Oct. 2016	Nov. 2016	Dec. 2016	Jan. 2017	Feb. 2017
High (USD per EUR)	1.1271	1.1212	1.1121	1.0758	1.0794	1.0802
Low (USD per EUR)	1.1158	1.0866	1.0560	1.0375	1.0416	1.0551

The average exchange rates for the US dollar per euro for the five years ended December 31, 2016, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

<b>Year ended December 31,</b>	Average rate <sup>1)</sup>
2012	1.2909
2013	1.3303
2014	1.3210
2015	1.1032
2016	1.1029

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



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### **14 Business overview [Business lines](#)**

#### **[Business lines](#)**

##### **[Americas](#)**

###### **[Life](#)**

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 & health](#)**

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

###### **[Mutual funds](#)**

Wide range of specialized mutual funds, including asset allocation, US equity, global/international equity, alternative investments, hybrid allocation, fixed income and target date funds.

###### **[Retirement plans](#)**

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

###### **[Variable annuities](#)**

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 provide income in retirement.

###### **[Fixed annuities](#)**

Fixed annuities allow customers 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.

###### **[Stable value solutions](#)**

Synthetic Guaranteed Investment Contracts (GICs) in the United States offered primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans.

## 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

**Life:** Individual protection products, such as annuities, 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, and Turkey. This business line 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. This business line includes life insurance, accident and health insurance, general insurance and investment products.

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Business overview **Business lines** 15

**Asia**

**High net worth businesses**

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

**Aegon Insights**

Full range of direct insurance solutions 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, in addition to results of the asset management holding.

**Strategic partnerships**

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

In France, Aegon Asset Management has a strategic asset management partnership with La Banque Postale, through a 25% equity stake in La Banque Postale Asset Management.

**Table of Contents****16 Business overview Results of operations Worldwide****Results of operations**

This Annual Report includes the non-IFRS financial measure: underlying earnings before tax. The reconciliation of this measure to the most comparable IFRS measure is presented in the table below in addition to 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 below. Aegon believes that these non-IFRS measures provides meaningful supplemental 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 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.

**Results 2016 worldwide****Underlying earnings before tax geographically**

Amounts in EUR millions

**Net underlying earnings**

Tax on underlying earnings

**Underlying earnings before tax geographically**

Americas

The Netherlands

United Kingdom

Central &amp; Eastern Europe

	2016	2015	%
<b>Net underlying earnings</b>	<b>1,483</b>	<b>1,481</b>	-
Tax on underlying earnings	429	386	11%
<b>Underlying earnings before tax geographically</b>			
Americas	1,249	1,278	(2%)
The Netherlands	534	537	(1%)
United Kingdom	59	(27)	-
Central & Eastern Europe	55	37	51%

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Spain & Portugal	8	12	(38%)
<i>Europe</i>	655	559	17%
Asia	21	20	3%
Asset Management	149	170	(12%)
Holding and other activities	(162)	(161)	-
<b>Underlying earnings before tax</b>	<b>1,913</b>	<b>1,867</b>	<b>2%</b>
Fair value items	(840)	(651)	(29%)
Gains / (losses) on investments	340	346	(2%)
Net impairments	(54)	49	-
Other income / (charges)	(771)	(2,180)	65%
Run-off businesses	54	88	(39%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>641</b>	<b>(482)</b>	<b>-</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>			
	31	33	(6%)
Income tax			
	(203)	51	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>			
	(31)	(33)	6%
<b>Net income</b>	<b>438</b>	<b>(431)</b>	<b>-</b>
Commissions and expenses	6,696	6,916	(3%)
of which operating expenses	3,764	3,734	1%

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**Table of Contents**Business overview **Results of operations** **Worldwide 17****New life sales**

Amounts in EUR millions

	<b>2016</b>	2015	%
Americas	542	599	(9%)
The Netherlands	111	130	(15%)
United Kingdom	66	72	(8%)
Central & Eastern Europe	83	91	(9%)
Spain & Portugal	39	39	1%
<i>Europe</i>	299	332	(10%)
Asia	128	173	(26%)
<b>Total recurring plus 1/10 single</b>	<b>969</b>	<b>1,104</b>	<b>(12%)</b>

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

Amounts in EUR millions

	<b>2016</b>	2015	%
Americas	40,881	36,999	10%
The Netherlands	6,686	5,137	30%
United Kingdom	5,791	6,096	(5%)
Central & Eastern Europe	265	227	17%
Spain & Portugal	31	29	8%
<i>Europe</i>	12,773	11,489	11%
Asia	304	408	(25%)
Asset Management	46,366	33,722	37%
<b>Total gross deposits</b>	<b>100,325</b>	<b>82,618</b>	<b>21%</b>

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	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe	Asia	Asset Management	Holding, other activities and eliminations	Segment total	Associates and Joint Ventures eliminations
	7,363	2,015	9,888	399	191	12,493	1,121	-	(78)	20,898	(498)
	2,204	210	36	1	73	320	104	-	(4)	2,624	(15)
	-	266	-	179	92	536	-	-	-	536	(92)
	<b>9,567</b>	<b>2,491</b>	<b>9,924</b>	<b>578</b>	<b>355</b>	<b>13,348</b>	<b>1,225</b>	<b>-</b>	<b>(82)</b>	<b>24,058</b>	<b>(606)</b>

nt	3,717	2,135	1,661	45	45	3,886	232	3	3	7,841	(54)
ion	1,651	350	95	36	14	495	61	632	(242)	2,596	(188)
enue	4	-	-	-	2	2	-	1	3	11	(4)
<b>venues</b>	<b>14,940</b>	<b>4,976</b>	<b>11,680</b>	<b>659</b>	<b>416</b>	<b>17,732</b>	<b>1,517</b>	<b>636</b>	<b>(318)</b>	<b>34,507</b>	<b>(852)</b>
of											
es,											
agent											
es	11,943	4,464	2,673	2,317	600	10,054	5,579	1,474	330	29,380	

**Underlying earnings before tax by line of business**

Amounts in EUR millions

	<b>2016</b>	2015	%
Life	779	774	1%
Individual Savings & Retirement	534	604	(12%)
Pensions	555	440	26%
Non-life	34	17	99%
Asset management	149	170	(12%)
Other	(139)	(139)	-
<b>Underlying earnings before tax</b>	<b>1,913</b>	<b>1,867</b>	<b>2%</b>



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**Table of Contents****18 Business overview Results of operations Worldwide****Results 2016 worldwide**

Aegon's net income in 2016 improved to EUR 438 million compared with 2015. Underlying earnings before tax increased 2% compared with 2015 to EUR 1,913 million in 2016, primarily as a result of higher underlying earnings before tax from the United Kingdom. The net result in 2016 was impacted by a loss of EUR 840 million on fair value items, which was driven by accounting losses on hedging programs and underperformance of alternative investments. Realized gains of EUR 340 million in 2016 mainly related to normal trading in the investment portfolio. Other charges amounted to EUR 771 million in 2016, mainly driven by the EUR 682 million book loss on the divestment of the annuity portfolio in the United Kingdom.

**Net income**

The net income amounted to EUR 438 million in 2016 driven by underlying earnings before tax of EUR 1,913 million, and was impacted by the book loss on the divestment of the UK annuity portfolio and fair value losses, partly offset by gains on investments.

**Underlying earnings before tax**

Aegon's underlying earnings before tax increased compared with 2015 to EUR 1,913 million in 2016. This was mainly driven by lower amortization of deferred policy acquisition costs (DPAC) in the United Kingdom following the write down of DPAC in the fourth quarter of 2015.

Underlying earnings before tax from the Americas declined compared with 2015 to EUR 1,249 million in 2016. Expense reductions and an improvement in claims experience offset lower variable annuities underlying earnings before tax compared with 2015 and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarter of 2015.

In Europe, underlying earnings before tax in 2016 increased by 17% compared with 2015 to EUR 655 million. This was mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform compared to 2015.

In Asia, underlying earnings before tax increased in 2016 compared with 2015 to EUR 21 million as a result of increased underlying earnings before tax from the High Net Worth business. This was partly offset by lower underlying earnings before tax from Strategic partnerships compared with 2015 mainly a result of the increase in ownership from 26% to 49% in India, which is currently loss-making.

Underlying earnings before tax from asset management decreased by 12% in 2016 compared with 2015 to EUR 149 million. This decline was mainly driven by lower underlying earnings before tax from Aegon's Chinese asset management joint venture AIFMC due to the normalization of performance fees.

Total holding costs remained stable compared with 2015 at EUR 162 million in 2016.

**Fair value items**

The results from fair value items amounted to a loss of EUR 840 million in 2016, and were mainly driven by fair value losses in the United States. EUR 521 million fair value losses in the United States in 2016 were driven by the

loss on hedging programs and the underperformance of alternative investments. 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 322 million). This was mainly driven by the loss on equity hedges, which were set up to protect Aegon's capital position. Underperformance of fair value investments of EUR 226 million was primarily driven by investments related to hedge funds in the United States. Fair value losses of EUR 236 million in Europe in 2016 were driven by credit spreads movements, declining interest rates as a result of a mismatch on an IFRS basis between the valuation of interest rate hedges and liabilities, and declining interest rates as a result of the mismatch on an IFRS basis between certain interest rate hedges on the mortgage portfolio and the underlying mortgages. In addition, the loss on interest rate swaps was the main driver of the EUR 74 million fair value losses in 2016 at the holding.

### **Realized gains on investments**

Realized gains on investments amounted to EUR 340 million in 2016 and were primarily related to a rebalancing of the investment portfolio in the United Kingdom and gains resulting from asset-liability management adjustments in the Netherlands.

### **Impairment charges**

Net impairments of EUR 54 million in 2016 primarily related to investments in the energy industry in the United States.

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**Table of Contents**Business overview **Results of operations** **Worldwide 19****Other charges**

Other charges amounted to EUR 771 million in 2016. These were mostly caused by the book loss on the divestment of the annuity portfolio in the United Kingdom (EUR 682 million), and assumption changes and model updates (EUR 118 million).

**Run-off businesses**

The results of run-off businesses declined to EUR 54 million in 2016 mainly as a result of an adjustment to the intangible balances for BOLI/COLI business.

**Income tax**

Income tax amounted to EUR 203 million in 2016, and included one-time tax benefits in the United States and the United Kingdom. The effective tax rate on underlying earnings before tax and total income for 2016 was 22% and 32%, respectively.

**Commissions and expenses**

Commissions and expenses decreased by 3% in 2016 compared with 2015 to EUR 6.7 billion, mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom. Operating expenses increased by 1% in 2016 compared with 2015 to EUR 3.8 billion. Increased variable personnel expenses compared with 2015 and the acquisition of the defined contribution business from Mercer more than offset expense savings.

**Production**

In 2016, compared with 2015, gross deposits were up 21% to EUR 100.3 billion, driven by higher gross deposits in asset management and Retirement Plans in the United States. Net deposits, excluding run-off businesses, declined to EUR 3.5 billion in 2016 compared with 2015, mostly due to lower gross deposits in variable annuities, anticipated contract discontinuances from the business acquired from Mercer, and low asset management net flows. The latter were mainly driven by market insecurity following the Brexit vote and a reduction in flows from money market funds in China. New life sales declined by 12% compared with 2015 to EUR 969 million in 2016, mostly driven lower universal life and term life production in the United States, fewer pension buy-out sales in the Netherlands, and lower sales in Asia as a result of Aegon's strict pricing policy in a low rate environment. New premium production for accident & health and general insurance decreased by 9% compared with 2015 to EUR 954 million in 2016, mainly as a result of several product exits and a lower contribution from portfolio acquisitions.

**Capital management**

During 2016, shareholders' equity decreased by EUR 1.9 billion to EUR 20.5 billion, as a result of a EUR 400 million share buyback and the impact from higher interest rates on revaluation reserves. During the year, the revaluation reserves decreased by EUR 1.1 billion to EUR 5.4 billion. Aegon's shareholders' equity, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 17.0 billion on December 31, 2016, or 8.51 per common

share. The gross leverage ratio increased to 29.8% on December 31, 2016, compared with 28.4% at the end of 2015, which was mostly the result of the issuance of EUR 500 million senior unsecured notes. Excess capital in the holding increased from EUR 1.4 billion at the end of 2015 to EUR 1.5 billion on December 31, 2016, as net remittances from business units and the aforementioned issuance of senior unsecured notes more than offset the EUR 400 million share buyback, dividends to shareholders, interest payments and operating expenses.

On December 31, 2016, Aegon's estimated Solvency II ratio amounted to 157%. The RBC ratio in the United States decreased from 460% at year-end 2015 to ~440% on December 31, 2016 which primarily reflects dividends upstreamed to the holding. In the Netherlands, the estimated Solvency II ratio at the end of 2016 amounted to 135%. The estimated Solvency II ratio at the end of 2016 of Aegon United Kingdom amounted to 156%.

The Group Solvency II ratio and Aegon the Netherlands Solvency II ratio have been updated since the earlier public communications on February 17, 2017 as a result of a change in the calculations of the risk margin in the Netherlands.

The Solvency ratios as disclosed in this section represent Aegon's estimates are not final until filed with the regulator and subject to supervisory review. Solvency II capital ratios are still subject to final interpretations of Solvency II regulations including the assumptions underlying Aegon's factor for the loss absorbing capacity of deferred taxes in the Netherlands of 75%.

#### **Dividends from and capital contributions to business units**

Aegon received EUR 1.1 billion of dividends from its business units during 2016 from the Americas, asset management, Central & Eastern Europe and Spain & Portugal. Aegon spent EUR 0.2 billion on capital contributions.

**Table of Contents**20 Business overview **Results of operations** **Worldwide****Results 2015 worldwide****Underlying earnings before tax geographically**

Amounts in EUR millions	<b>2015</b>	2014	%
<b>Net underlying earnings</b>	<b>1,481</b>	<b>1,507</b>	(2%)
Tax on underlying earnings	386	499	(23%)
<b>Underlying earnings before tax geographically</b>			
Americas	1,278	1,275	-
The Netherlands	537	558	(4%)
United Kingdom	(27)	125	-
Central & Eastern Europe	37	60	(39%)
Spain & Portugal	12	28	(56%)
<i>Europe</i>	559	771	(27%)
Asia	20	(17)	-
Asset Management	170	115	48%
Holding and other activities	(161)	(138)	(17%)
<b>Underlying earnings before tax</b>	<b>1,867</b>	<b>2,006</b>	<b>(7%)</b>
Fair value items	(651)	(1,362)	52%
Gains / (losses) on investments	346	697	(50%)
Net impairments	49	(34)	-
Other income / (charges)	(2,180)	(391)	-
Run-off businesses	88	11	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(482)</b>	<b>927</b>	-
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	33	10	-
<i>Income tax</i>	51	(161)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(33)	(10)	-
<b>Net income</b>	<b>(431)</b>	<b>766</b>	-
Commissions and expenses	6,916	5,865	18%
of which operating expenses	3,734	3,312	13%
<b>New life sales</b>			
Amounts in EUR millions	<b>2015</b>	2014	%
Americas	599	552	9%
The Netherlands	130	251	(48%)
United Kingdom	72	65	10%
Central & Eastern Europe	91	107	(15%)
Spain & Portugal	39	49	(20%)
<i>Europe</i>	332	472	(30%)

Asia	173	114	52%
<b>Total recurring plus 1/10 single</b>	<b>1,104</b>	<b>1,138</b>	<b>(3%)</b>
<b>Gross deposits (on and off balance)</b>			
Amounts in EUR millions	<b>2015</b>	2014	%
Americas	36,999	31,849	16%
The Netherlands	5,137	2,781	85%
United Kingdom	6,096	5,238	16%
Central & Eastern Europe	227	215	5%
Spain & Portugal	29	55	(47%)
<i>Europe</i>	<i>11,489</i>	<i>8,289</i>	<i>39%</i>
Asia	408	526	(22%)
Asset Management	33,722	19,340	74%
<b>Total gross deposits</b>	<b>82,618</b>	<b>60,004</b>	<b>38%</b>

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**Table of Contents**Business overview **Results of operations** **Worldwide 21**

	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe	Asia	Asset Management	Holding, other activities and eliminations	Segment total	Associates and Joint Ventures eliminations
Revenue	7,046	2,240	8,465	477	174	11,356	1,713	-	(102)	20,013	(431)
Expenses	2,266	234	47	1	64	345	105	-	-	2,717	(14)
Other	-	473	-	164	80	717	-	-	2	720	(80)
<b>Operating income</b>	<b>9,312</b>	<b>2,947</b>	<b>8,512</b>	<b>642</b>	<b>317</b>	<b>12,419</b>	<b>1,819</b>	<b>-</b>	<b>(100)</b>	<b>23,450</b>	<b>(524)</b>
Other	3,680	2,277	2,331	45	41	4,693	194	7	2	8,576	(51)
Other	1,704	351	98	39	13	501	62	650	(284)	2,633	(195)
Other	9	-	-	-	2	2	-	-	7	19	(5)
<b>Operating income</b>	<b>14,705</b>	<b>5,575</b>	<b>10,941</b>	<b>726</b>	<b>373</b>	<b>17,615</b>	<b>2,076</b>	<b>657</b>	<b>(375)</b>	<b>34,677</b>	<b>(775)</b>
Other	12,701	4,503	2,478	2,470	534	9,985	7,163	1,382	299	31,530	

**Underlying earnings before tax by line of business**

Amounts in EUR millions

	2015	2014	%
Life	774	923	(16%)
Individual Savings & Retirement	604	528	14%
Pensions	440	518	(15%)
Non-life	17	46	(62%)
Asset management	170	115	48%
Other	(139)	(124)	(13%)
<b>Underlying earnings before tax</b>	<b>1,867</b>	<b>2,006</b>	<b>(7%)</b>

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**Table of Contents**22 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 compared with 2014 to EUR 1,867 million in 2015, primarily impacted by lower underlying earnings before tax 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 651 million on fair value items, which was driven by accounting losses on hedging programs. Realized gains of EUR 346 million in 2015 mainly related to normal trading in the investment portfolio. Other charges amounted to EUR 2,180 million in 2015, mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization, and the loss on the divestment of the Canadian life insurance activities.

**Net income**

The net loss amounted to EUR 431 million in 2015, impacted 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.

**Underlying earnings before tax**

Aegon's underlying earnings before tax in 2015 declined compared with 2014 to EUR 1,867 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 and a lower result from the Holding.

Underlying earnings before tax from the Americas remained stable compared with 2014 at EUR 1,278 million in 2015. The impact of the stronger US dollar offset adverse claims experience and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015.

In Europe, underlying earnings before tax declined compared with 2014 to EUR 559 million in 2015, as a result of 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 compared with 2014 to EUR 20 million in 2015 as one-time charges in 2014 did not recur.

Asset Management underlying earnings before tax were up 48% compared with 2014 to EUR 170 million in 2015, driven by the positive impact of higher performance fees and third-party assets under management.

The result from the holding deteriorated compared with 2014 to a loss of EUR 161 million in 2015. This was mainly the result of higher net interest costs compared with 2014 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 651 million in 2015, and were mainly driven by fair value losses in the United States in 2015. EUR 691 million fair value losses in the United States were driven by the loss on hedging programs and the underperformance of alternative investments. 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 403 million). This was mainly driven by the loss on equity hedges, which were set up to protect Aegon's capital position. Underperformance of fair value investments of EUR 201 million was primarily driven by investments related to energy-related investments and hedge funds in the United States. Results on fair value items in Europe amounted to a gain of EUR 101 million in 2015 driven mainly by positive revaluations on real estate and results of interest rate hedging in the Netherlands. In addition, the loss on interest rate swaps was the main driver of the EUR 68 million fair value losses in 2015 at the holding.

### **Realized gains on investments**

Realized gains on investments amounted to EUR 346 million in 2015 and were primarily related to a rebalancing of the fixed income portfolio in the Netherlands and the United Kingdom.

### **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 2,180 million in 2015. 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 the negative impact of assumption changes and model updates (EUR 131 million).

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**Table of Contents**Business overview **Results of operations** **Worldwide 23****Run-off businesses**

The results of run-off businesses improved compared with 2014 to EUR 88 million in 2015.

**Income tax**

Income tax amounted to EUR 51 million benefit in 2015. This was mostly driven by tax credits related to solar energy investments in the United States and the low tax rate on losses as a result of the write down of deferred policy acquisition costs in the United Kingdom.

**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 compared with 2014 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**

In 2015, compared with 2014, gross deposits were up 38% to EUR 82.6 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% compared with 2014 to EUR 17.2 billion in 2015, mostly due to higher gross deposits and the de-recognition of movements in stable value solutions balances. New life sales declined by 3% compared with 2014 to EUR 1.1 billion in 2015, mostly driven by lower universal life production in the United States, fewer pension buy-out sales in the Netherlands. New premium production for accident & health and general insurance increased by 3% compared with 2014 to EUR 1.0 billion in 2015, 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 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.

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 2015 in Asia, Central & Eastern Europe, Asset Management and Variable Annuities Europe.

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	Amounts in USD millions			Amounts in EUR millions		
	2016	2015	%	2016	2015	%
<b>Net underlying earnings</b>	<b>1,059</b>	<b>1,100</b>	<b>(4%)</b>	<b>956</b>	<b>991</b>	<b>(4%)</b>
Tax on underlying earnings	323	318	2%	292	286	2%
<b>Underlying earnings before tax by business</b>						
Life	174	207	(16%)	157	186	(16%)
Accident & Health	218	165	32%	197	149	32%
Retirement plans	280	261	7%	253	235	7%
Mutual funds	50	50	-	45	45	-
Variable annuities	393	503	(22%)	355	453	(22%)
Fixed annuities	172	131	31%	155	118	32%
Stable Value Solutions	96	101	(4%)	87	91	(4%)
Latin America	1	1	(41%)	1	1	(41%)
<b>Underlying earnings before tax</b>	<b>1,382</b>	<b>1,418</b>	<b>(3%)</b>	<b>1,249</b>	<b>1,278</b>	<b>(2%)</b>
Fair value items	(577)	(768)	25%	(521)	(691)	25%
Gains / (losses) on investments	(14)	(83)	83%	(13)	(74)	83%
Net impairments	(33)	79	-	(30)	71	-
Other income / (charges)	(111)	(1,013)	89%	(100)	(913)	89%
Run-off businesses	60	98	(39%)	54	88	(39%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>706</b>	<b>(268)</b>	<b>-</b>	<b>638</b>	<b>(241)</b>	<b>-</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	3	5	(32%)	3	5	(32%)
Income tax	(88)	7	-	(80)	6	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(3)	(5)	32%	(3)	(5)	32%
<b>Net income</b>	<b>618</b>	<b>(261)</b>	<b>-</b>	<b>558</b>	<b>(235)</b>	<b>-</b>
Life insurance gross premiums	8,150	7,821	4%	7,363	7,046	5%
Accident and health insurance premiums	2,440	2,515	(3%)	2,204	2,266	(3%)

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<b>Total gross premiums</b>	<b>10,590</b>	<b>10,336</b>	<b>2%</b>	<b>9,567</b>	<b>9,312</b>	<b>3%</b>
Investment income	4,114	4,085	1%	3,717	3,680	1%
Fees and commission income	1,828	1,891	(3%)	1,651	1,704	(3%)
Other revenues	5	11	(56%)	4	9	(56%)
<b>Total revenues</b>	<b>16,537</b>	<b>16,322</b>	<b>1%</b>	<b>14,940</b>	<b>14,705</b>	<b>2%</b>
Commissions and expenses	4,532	4,489	1%	4,095	4,044	1%
of which operating expenses	1,834	1,843	(1%)	1,656	1,660	-

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	Amounts in USD millions			Amounts in EUR millions		
	2016	2015	%	2016	2015	
<b>New life sales</b>						
Life	547	622	(12%)	494	561	(12%)
Latin America	53	42	24%	48	38	25%
<b>Total recurring plus 1/10 single</b>	<b>600</b>	<b>665</b>	<b>(10%)</b>	<b>542</b>	<b>599</b>	<b>(9%)</b>

	Amounts in USD millions			Amounts in EUR millions		
	2016	2015	%	2016	2015	%
New premium production accident and health insurance	895	1,003	(11%)	808	904	(11%)

	Amounts in USD millions			Amounts in EUR millions		
	2016	2015	%	2016	2015	%
<b>Gross deposits (on and off balance)</b>						
Life	8	7	21%	8	6	21%
Retirement plans	35,137	27,833	26%	31,743	25,075	27%
Mutual funds	5,467	5,084	8%	4,939	4,580	8%
Variable annuities	4,375	7,857	(44%)	3,952	7,079	(44%)
Fixed annuities	254	276	(8%)	230	249	(8%)
Latin America	10	12	(14%)	9	10	(13%)
<b>Total gross deposits</b>	<b>45,251</b>	<b>41,069</b>	<b>10%</b>	<b>40,881</b>	<b>36,999</b>	<b>10%</b>

<b>Exchange rates</b>	Weighted average rate		Closing rate as of	
	2016	2015	December 31, 2016	December 31, 2015
Per 1 EUR				
USD	1.1069	1.1100	1.0548	1.0863

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The net income from the Americas amounted to USD 618 million in 2016. Underlying earnings before tax in 2016 were stable compared with 2015 at USD 1.4 billion. Expense reductions and an improvement in claims experience compared with 2015 offset lower variable annuities underlying earnings before tax and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarter of 2015. Gross deposits increased to USD 45.3 billion in 2016 compared with 2015, as a result of the deposits from the defined contribution business acquired from Mercer in 2015, which more than offset lower variable annuity deposits. New life sales declined to USD 600 million in 2016 compared with 2015 due to a decline in the recruitment of new agents and Aegon's strict pricing policy, while new premium production for accident & health insurance was down to USD 0.9 billion compared with 2015 due to lower contribution from portfolio acquisitions and several product exits.

**Net income**

The net income amounted to USD 618 million in 2016, as underlying earnings before tax were partly offset by losses from fair value items. Underlying earnings before tax in 2016 were stable compared with 2015 at USD 1.4 billion. Results on fair value items amounted to a loss of USD 577 million in 2016, which was primarily related to underperformance of hedge fund investments and the impact on hedging programs as a result of higher equity markets. Income before tax from run-off businesses in 2016 amounted to USD 60 million, while realized losses on investments in 2016 amounted to USD 14 million. Net impairments amounted USD 33 million in 2016, primarily related to investments in the energy industry. Other charges of USD 111 million in 2016 mainly related to the net impact of assumption changes and model updates. These charges were mainly driven by the assumption changes and model updates in the US from long-term care, primarily resulting from experience updates for morbidity, termination rates and utilization assumptions. For the other business lines, assumption and model changes largely offset each other.

**Underlying earnings before tax**

Underlying earnings before tax in 2016 were stable compared with 2015 at USD 1.4 billion. Expense reductions and an improvement in claims experience compared with 2015 offset lower variable annuities underlying earnings before tax and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarter of 2015.

Underlying earnings before tax from Life decreased to USD 174 million in 2016 compared with USD 207 million in 2015. Expense savings were more than offset by unfavorable mortality, the impact of lower interest rates compared with

2015 and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarter of 2015.

Accident & Health underlying earnings before tax increased to USD 218 million in 2016 compared with USD 165 million in 2015, as an improvement in long-term care morbidity experience and expense savings more

than offset the negative impact on underlying earnings before tax of product exits.

Underlying earnings before tax from Mutual Funds were stable in 2016 compared with 2015 at USD 50 million.

Retirement Plans underlying earnings before tax were up to USD 280 million in 2016 compared with USD 261 million in 2015, primarily driven by the benefit of expense savings and increased fee income compared with 2015. Increased fee income resulted from higher average account balances driven by equity market performance, which more than offset margin pressure arising from the competitive environment on fees. Underlying earnings before tax from Variable Annuities declined to USD 393 million in 2016 compared with USD 503 million in 2015 as a result of lower underlying earnings before tax from the declining closed block, lower margins on new business and adverse claims experience.

Fixed Annuity underlying earnings before tax increased by 31% in 2016 compared with 2015 to USD 172 million, as an increase in the result from adjustments to intangible assets more than offset the continued balance reduction.

Underlying earnings before tax from Stable Value Solutions amounted to USD 96 million in 2016 compared with USD 101 million in 2015 due to lower average account balances.

Latin America contributed USD 1 million to underlying earnings before tax in 2016.

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**Commissions and expenses**

Commissions and expenses increased by 1% compared with 2015 in 2016 to USD 4.5 billion. Operating expenses decreased by 1% compared with 2015 in 2016 to USD 1.8 billion. Expense savings and lower restructuring charges compared with 2015 were partly offset by increased variable personnel expense and the acquisition of the defined contribution business acquired from Mercer.

**Production**

Gross deposits increased by 10% in 2016 compared with 2015 to USD 45.3 billion. Higher gross deposits in Retirement Plans more than offset a decline in variable annuity deposits compared with 2015. Increased retirement plan gross deposits were mostly driven by the acquisition of the defined contribution business acquired from Mercer. Variable annuity gross deposits were down

by 44% in 2016 compared with 2015 to USD 4.4 billion, mainly driven by product adjustments implemented last year in response to the low interest rate environment and lower market demand as a result of the upcoming implementation of the Department of Labor fiduciary rule.

New life sales declined by 10% in 2016 to USD 600 million compared with 2015, as a result of lower universal life and term life sales. Lower universal life sales resulted from a decline in the recruitment of new agents. Sales of term life products declined as Aegon did not lower its pricing in line with a number of its competitors. New premium production for accident & health insurance was down 11% to USD 0.9 billion in 2016 compared with 2015, mainly resulting from a lower contribution from portfolio acquisitions and several product exits.

**Table of Contents**28 Business overview **Results of operations Americas****Results 2015 Americas**

	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
<b>Net underlying earnings</b>	<b>1,100</b>	<b>1,204</b>	<b>(9%)</b>	<b>991</b>	<b>906</b>	<b>9%</b>
Tax on underlying earnings	318	491	(35%)	286	369	(22%)
<b>Underlying earnings before tax by business</b>						
Life insurance	207	347	(40%)	186	261	(29%)
Accident & health insurance	165	212	(22%)	149	160	(7%)
Retirement plans	261	272	(4%)	235	205	15%
Mutual funds	50	47	6%	45	35	26%
Variable annuities	503	460	9%	453	346	31%
Fixed annuities	131	211	(38%)	118	159	(26%)
Stable value solutions	101	109	(8%)	91	82	11%
Canada	-	30	-	-	23	-
Latin America	1	5	(72%)	1	4	(67%)
<b>Underlying earnings before tax</b>	<b>1,418</b>	<b>1,694</b>	<b>(16%)</b>	<b>1,278</b>	<b>1,275</b>	<b>-</b>
Fair value items	(768)	(656)	(17%)	(691)	(494)	(40%)
Gains / (losses) on investments	(83)	113	-	(74)	85	-
Net impairments	79	27	189%	71	21	-
Other income / (charges)	(1,013)	(269)	-	(913)	(202)	-
Run-off businesses	98	15	-	88	11	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(268)</b>	<b>925</b>	<b>-</b>	<b>(241)</b>	<b>696</b>	<b>-</b>
<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%)
<b>Net income</b>	<b>(261)</b>	<b>796</b>	<b>-</b>	<b>(235)</b>	<b>599</b>	<b>-</b>
Life insurance gross premiums	7,821	8,585	(9%)	7,046	6,461	9%
Accident and health insurance	2,515	2,490	1%	2,266	1,874	21%

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premiums						
<b>Total gross premiums</b>	<b>10,336</b>	<b>11,074</b>	<b>(7%)</b>	<b>9,312</b>	<b>8,334</b>	<b>12%</b>
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	-
<b>Total revenues</b>	<b>16,322</b>	<b>17,453</b>	<b>(6%)</b>	<b>14,705</b>	<b>13,134</b>	<b>12%</b>
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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	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
<b>New life sales</b>						
Life	622	615	1%	561	463	21%
Canada	-	75	-	-	56	-
Latin America	42	43	(2%)	38	33	17%
<b>Total recurring plus 1/10 single</b>	<b>665</b>	<b>733</b>	<b>(9%)</b>	<b>599</b>	<b>552</b>	<b>9%</b>

	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%

	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
<b>Gross deposits (on and off balance)</b>						
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%
Canada	-	121	-	-	91	-
Latin America	12	18	(35%)	10	14	(22%)
<b>Total gross deposits</b>	<b>41,069</b>	<b>42,321</b>	<b>(3%)</b>	<b>36,999</b>	<b>31,849</b>	<b>16%</b>

Weighted average rate Closing rate as of

**Exchange rates**

	December 31, 2015		December 31, 2014	
	2015	2014	2015	2014
Per 1 EUR				
USD	1.1100	1.3288	1.0863	1.2101
CAD	1.4173	1.4667	1.5090	1.4015

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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 by 16% in 2015 compared with 2014 to USD 1.4 billion. This was mainly driven by adverse claims experience and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015. Gross deposits declined by 3% in 2015 compared with 2014 to USD 41.1 billion and new life sales by 9% in 2015 compared with 2014 to USD 665 million, both due to product adjustments to improve profitability, while new premium production for accident & health insurance was down 16% in 2015 compared with 2014 to USD 1.0 billion.

**Net income**

The net loss amounted to USD 261 million in 2015, primarily as the result of the book loss on the divestment of Aegon's Canadian life insurance business of USD 837 million in 2015. Result on fair value items amounted to a loss of USD 768 million in 2015, which was primarily related to the impact on hedging programs as a result of lower interest rates and higher equity markets compared with 2014. Income before tax from run-off businesses amounted to USD 98 million in 2015. Realized losses on investments amounted to USD 83 million in 2015, and were mainly related to investments in emerging markets and the energy sector. Net impairments improved from a benefit of USD 27 million in 2014 to a benefit of USD 79 million in 2015 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 in 2015, 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 16% compared with 2014 to USD 1.4 billion. This was mainly driven by adverse claims experience and the impact on recurring underlying earnings before tax of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015.

Underlying earnings before tax from Life decreased to USD 207 million in 2015 compared with USD 347 million in 2014. This is due to unfavorable mortality, the impact of lower interest rates and the impact on recurring underlying earnings before tax 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 22% in 2015 compared with 2014 to USD 165 million, which was mainly the result of adverse morbidity.

Underlying earnings before tax from Mutual Funds increased by 6% in 2015 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 increased by 9% in 2015 compared with 2014 to USD 503 million as a result of higher average balances driven by net deposits.

Fixed Annuity underlying earnings before tax were down 38% in 2015 compared with 2014 to USD 131 million. Underlying earnings before tax from fixed annuities were impacted by the decline of balances

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compared with 2014 as a result of deemphasizing the business.

Underlying earnings before tax from Stable Value Solutions amounted to USD 101 million in 2015 compared with USD 109 million in 2014 due to lower account balances from net outflows.

Latin America contributed USD 1 million to underlying earnings before tax in 2015.

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**Commissions and expenses**

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% in 2015 to USD 27.8 billion compared with 2014 due to higher recurring deposits. Variable annuity gross deposits were down by 23% in 2015 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% in 2015 compared with 2014 to USD 1.0 billion, mainly resulting from a lower contribution from portfolio acquisitions and several product exits.

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#### **Overview of Americas**

Aegon Americas operates under the Transamerica brand in the United States, and also has operations in Brazil and Mexico.

#### **Aegon in the US**

Transamerica is one of the leading<sup>1</sup> life insurance organizations in the United States, and the largest of Aegon's operating units worldwide. Its businesses in the US serve customers in all fifty states and employs approximately 11,000 people. Most Aegon companies in the United States operate under the Transamerica brand. 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 its subsidiaries and affiliated companies, Aegon provides a wide range of life insurance, supplemental health insurance, retirement plans, long-term savings and investment products.

Aegon utilizes a variety of distribution channels to help customers access its products and services as suits their needs. These include brokerage, partner, institutional/worksite and wholesale.

#### **Aegon in Brazil**

In 2009, Aegon acquired a 50% interest in Mongeral Aegon Seguros e Previdência S.A. (hereafter referred to as Mongeral Aegon), Brazil's fourth largest independent (i.e. non-bank affiliated) life insurer. As of December 2016, Aegon Brazil had approximately 500 employees.

To further capture growth prospects in Brazil, Mongeral Aegon and Bancoob (Banco Cooperativo do Brasil) established Sicoob Seguradora de Vida e Previdência, a new life insurance and pensions company dedicated to providing life insurance and pension products to the Sicoob system on August 12, 2016. Sicoob is the largest cooperative financial system in the country, with over 3.2 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 brokers.

#### **Aegon in 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. and created Akaan-Aegon S.A.P.I. de C.V. to explore financial service opportunities. This Mexico City-based organization is still in the start-up phase and focuses on third-party asset management.

#### **Aegon in Canada**



In Canada, Aegon operates an insurance agency under the brand World Financial Group Insurance Agency of Canada Inc., in addition to an affiliated securities dealer. On July 31, 2015, Aegon completed the sale of its Canadian life insurance and asset management business.

## 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 business overview refers to the operating subsidiaries in the United States, collectively or individually, through which Aegon 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 2016, Aegon USA made the strategic decision to bring all of its businesses together, restructuring into a functionally organized firm aimed at better meeting customers' needs and creating a consistent, positive experience for customers, business partners and employees. The new simplified structure is designed to provide relevant customer solutions that are easy to understand, and that address the full range of customers' financial protection and savings needs at every stage of life. The further aim is to better leverage Transamerica's brand strength, expertise and capabilities in order to fulfill Aegon's purpose of helping people achieve a lifetime of financial security.

The product lines sold or operated through one or more of the Aegon USA's life insurance companies include: life, accident & health, mutual funds, variable annuities, fixed annuities, retirement plans, stable value solutions, and Latin America. The product lines, described in greater detail below, represent groups of products and services that Aegon USA offers through

<sup>1</sup> Source: A.M. Best's Rating Report dated June 24, 2016  
<https://www.transamerica.com/individual/about-us/who-we-are/financial-strength/am-best.html>. Webpage visited November 21, 2016.

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a number of distribution methods and sales channels. 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's product lines are now organized by distribution channel in order to ensure that they are aligned with customers' needs. Each channel has primary target market segments on which it is focused. The distribution channels fall into four main categories: brokerage, partner, institutional/worksites, and wholesale.

**Brokerage**

Aegon USA offers protection products (life insurance and long-term care) through third-party distribution outlets known as Brokerage General Agents or Independent Wholesale Organizations. These are typically registered products sold through independent insurance agents. This channel offers life insurance (term life, universal life, variable universal life<sup>1</sup>, index universal life and whole life insurance), 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 legacy planning.

**Partner**

Known as Transamerica Financial Network, Aegon USA provides advice and guidance to individuals to meet their protection and investment needs. Over 54,000 associates (World Financial Group) and 1,700 career agents (Transamerica Agency Network) offer insurance, annuities, mutual funds, retirement plans and managed accounts to individuals. This channel provides the same life and health products as the brokerage channel, with a focus on the middle and emerging affluent markets.

**Institutional/Worksite**

Aegon USA offers mutual funds, annuities, life insurance (universal life, whole life and term life), supplemental health products (critical illness, cancer, hospital indemnity, supplemental medical expense, short-term disability, vision, and dental policies), accident products, and Stable Value Solutions in this channel. The channel focuses on the sale of products to consumers through the employer segment, also known as the worksite. Aegon USA also offers individual products through institutions including large broker-dealer research and advisory platforms and large registered investment advisors.

**Wholesale**

Aegon USA offers annuities, mutual funds, retirement plans, life insurance and long-term care products through partnerships with independent broker-dealers that want a direct relationship with Aegon USA. The broker-dealer network is broken out into

three areas: banks, wirehouses, and independent financial planners. Aegon USA's wholesalers are dedicated to one product line, but work closely together to refer advisors across Aegon USA's multiple product lines with the intent of creating deeper partnerships with advisors and becoming even more relevant in the financial lives of customers.

On December 7, 2016, Aegon announced its intention to exit the Affinity, Direct TV and Direct Mail channels, which were part of the Accident & health line of business in the United States. After reviewing these businesses, Aegon decided that they no longer fitted with its strategic objectives.

## Overview of business lines

### Life

Aegon USA offers a comprehensive portfolio of protection solutions to customers in a broad range of market segments. Products offered include term life, universal life, variable universal life, index universal life and whole life insurance.

#### 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 by a policyholder when a policyholder's circumstances change. In determining the monthly deductions, Aegon USA takes a wide number of factors into account, including but not limited to: interest rates, mortality, taxes and expenses associated with the policy. Any changes in the monthly deductions reflect Aegon USA's current expectations with respect to future policy performance. At any time, the policy owner is able to see the maximum rate that can be charged. A version of this product has secondary guarantees, which guarantee continuation of the life insurance if the customer consistently pays an agreed minimum amount of premium each year.

#### 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.

<sup>1</sup> A small amount of variable universal life insurance is sold in the Brokerage channel by registered advisors through a broker dealer.

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Index Universal Life (IUL) insurance provides permanent death benefit protection and cash value accumulation with flexible premium payments. What distinguishes it from other types of permanent life insurance is the way in which 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 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 life insurance provides permanent death benefit protection, provided that the required premiums are paid, while accumulating tabular cash values based on statutory requirements. Premiums are generally fixed and usually payable over the life of the policy.

**Accident & health**

Aegon USA offers supplemental health insurance and long-term care insurance as well as casualty products.

**Supplemental health insurance**

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

A number of these products provide policyholders with lump sum or specified income payments if hospitalized, injured, or diagnosed with a critical illness. Others pay benefits for specific medical expenses and treatments, or cover deductibles, co-payments and co-insurance amounts not covered by other health insurance. In addition, medical stop-loss insurance is offered 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 qualified LTC services as they are unable to perform two or more specific activities of daily living or due to a severe cognitive impairment. LTC insurance helps protect a policyholder's assets from the high cost of LTC services, and it may also help families better manage the financial, health and safety issues associated with LTC.

**Casualty insurance**

Casualty insurance products include travel, involuntary unemployment and bike insurance products that provide protection for covered trips, unemployment and damage/loss to bicycles respectively. Following the announcement to exit

the Affinity, Direct TV and Direct Mail channels, these casualty products will be discontinued after a wind down period.

### **Mutual funds**

Mutual funds are offered for all market conditions, including asset allocation, US equity, global/international equity, alternative investments, hybrid allocation, fixed income and target date funds. Mutual funds are offered through a sub-advised or manager of managers mutual fund platform. Sub-advisors can include both those affiliated and not affiliated with Aegon USA. A rigorous on-going process of due diligence, manager selection, and ongoing reviews of manager performance versus objectives and peers enables our sub-advised mutual fund business to provide best-in-class investment options to Aegon USA customers.

### **Variable annuities**

Variable annuities allow the holder to accumulate assets for retirement on a tax-deferred basis and to participate in equity or bond market performance. The standalone variable annuity is often referred to in the market as an investment-only variable annuity (IOVA). Additional guarantees, also referred to as riders, can be added to variable annuities, including guaranteed minimum death benefits (GMDBs) and guaranteed living benefits (GLBs). GMDBs provide a guaranteed benefit in the event of death. GLBs are intended to provide a measure of protection against market risk while the annuitant is alive. Different forms of GLBs are offered, 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. Aegon USA is not actively marketing new sales of traditional fixed deferred annuities, and current sales primarily represent annuitizations and additional premium on existing contracts. Aegon USA actively offers a fixed-indexed annuity that may credit interest 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. Aegon USA's fixed-indexed annuity is distributed through third-party or affiliated broker-dealers and/or insurance agencies.

### **Retirement plans**

Comprehensive and customized retirement plan services are offered to employers across the entire spectrum of defined benefit, defined contribution and non-qualified deferred compensation plans. Services are also offered to individuals rolling over funds from other qualified retirement funds or Individual Retirement Accounts (IRAs).

Retirement plan services, including administration, recordkeeping and related services are offered to employers of all sizes and to plans across all market segments. Aegon USA also partners with plan advisors and third-party administrators to serve their customers. On December 31, 2015, Aegon USA closed the

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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 in the United States based on plan participants and assets<sup>1</sup>.

Plan sponsors have access to a wide array of investment options. Depending on the product chosen by the plan sponsor, unrestricted access to the entire universe of publicly-available investments can be offered. Smaller plans have access to an array of hundreds of investment choices from more than 40 investment management companies.

Tools are provided to help plan participants monitor their retirement accounts and engage in behavior to stay on track towards a funded retirement. Managed Advice<sup>®</sup> is an option that plan sponsors can make available to participants that provides investment and savings advice to participants.

For individual plan participants in transition due to a job loss or change or planned retirement, services are offered through the Transamerica Advice Center, a team of experienced registered representatives and registered investment advisors. Solutions include IRAs, advisory services, annuities and access to other financial products and resources.

**Stable Value Solutions**

Synthetic Guaranteed Investment Contracts (GICs) are offered primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans. A synthetic GIC wrapper is offered 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.

**Latin America**

Aegon's businesses in Latin America comprise of a 50% interest in Mongeral Aegon Seguros e Previdência S.A., a Brazilian independent life insurer; a 50% interest in Akaan-Aegon S.A.P.I. de C.V., a joint venture with Administradora Akaan S.A. de C.V., 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, mutual fund management, and administrative services. Akaan-Aegon is in the start-up process and will initially focus on

third-party asset management. Seguros Argos' primary product is 20-year term life insurance product.

**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, and medium-term notes (MTNs). GICs were generally issued to tax qualified plans, while funding agreements and MTNs were typically issued to non-tax qualified institutional investors.

GICs and funding agreements are spread-based products issued on a fixed-rate or floating-rate basis. They provide customers with a guarantee of principal and a specified rate of return. Nearly all 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.

Before 2009, Aegon USA utilized consolidated special purpose entities to issue MTNs that are backed by funding agreements. The proceeds of each note series were used to purchase a funding agreement from an Aegon USA 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 funding agreement that secured that series.

#### [Payout annuities](#)

Payout annuities are a form of immediate annuity purchased as a result of a lawsuit or claim. New sales of payout 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.

<sup>1</sup> PLANSPONSOR, June 2016, <http://www.plansponsor.com/2016-Recordkeeping-Survey/?type=top>. Webpage visited November 21, 2016.

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On September 2, 2015, Aegon USA sold Clark Consulting, its BOLI distribution and servicing unit. Clark Consulting was a distinct entity within the BOLI/COLI insurance business that continues to be in run-off.

#### **[Life reinsurance](#)**

In August 2011, Aegon completed the effective divestment of its life reinsurance business 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 life insurance, variable annuities, mutual funds, and defined contribution pension plans.

In individual life insurance, leading competitors include Lincoln National, Prudential Financial, MetLife, Pacific Life, and John Hancock. Genworth is a primary competitor for sales of individual long-term care insurance through the brokerage channel. Competitors for supplemental health include a wide range of companies and company types based on the nature of the coverage including Aflac, Allstate, MetLife, and Unum.

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

Top five competitors in the mutual fund market include 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, MassMutual, Principal Financial, Charles Schwab, and Lincoln. Aegon USA's main competitors in the defined benefit segment are MassMutual, 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 Fidelity, Voya Financial, John Hancock, Principal Financial and MassMutual.

#### **[Regulation and supervision](#)**

Aegon USA's insurance companies and the business they conduct in the US are regulated primarily at state level, as carried out by various state insurance regulators. Some activities, products and services are 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 and are 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 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, advertising 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 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. In addition, principle-based reserving for life insurance will come into force in 2017. Actuarial Guideline 49 added new rules for illustrations of index 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. Aegon USA uses captives for certain variable annuity business in order to facilitate effective hedging. Other current initiatives include a project to update capital charges for asset default risk,

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longevity risk and operational risk. A project to develop a group capital calculation is in its early stages. Long-term care is currently regulated by states as health insurance, although both state regulators and federal agencies are examining the current environment for long-term care industry, and this may lead to a more predictable regulatory regime for premium adjustments, and facilitate the development of new and innovative products. Although the proposals related to VA captive reinsurance arrangements are still being formulated, their possible impact of the current proposals on Aegon USA's operations is not expected to be material.

**Federal Regulation of Financial Services and Health Insurance**

Although the insurance business is primarily regulated at 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. The Federal Reserve Board also has authority to establish capital standards for systemically significant insurers, and insurers that are also Savings and Loan Holding Companies, and to participate in the establishment of international insurance capital standards for Internationally Active Insurance Groups (IAIGs) and globally systemically significant insurers (G-SIIs). The Federal Reserve Board has issued an Advanced Notice of Proposed Rulemaking, the initial step in establishing capital standards for insurers under its jurisdiction. 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. Regulations under the PPACA have been proposed, which if promulgated in the form proposed, could impose additional restrictions and requirements on these products. While the US Supreme Court has upheld critical provisions of PPACA, driving an expectation of continued federal regulation of certain health insurance products, it is also expected that

sweeping changes will be proposed or, possibly, a partial or full repeal of PPACA based on the stated policy positions of the Trump administration, although at present it is too early to comment as to what, if any, impacts will come to pass.

**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 have been granted provisional

equivalence. The US insurance and reinsurance entities are included in Aegon's group solvency calculation in accordance with local US (RBC) requirements. Aegon uses 250% of the local RBC Company Action Level (CAL) as the SCR equivalent. The non-regulated US entities and the US holding companies are included in Aegon's group Solvency II results through application of the Accounting Consolidation method under Solvency II, using Solvency II valuation and capital requirement calculations for these local balance sheets.

## Securities Regulation

A number of Aegon USA subsidiaries are subject to regulation under the federal securities laws administered by the Securities and Exchange Commission (SEC) and aspects of states' securities and other laws. Variable insurance policies, certain annuity contracts and registered management investment companies (mutual 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 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 spring of 2017. In addition, in accordance with Dodd-Frank Act requirements, the SEC intends to enhance its regulatory and examination oversight of registered

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investment advisors, but has not provided any timeframe for such a proposal. Finally, the SEC has reformed the regulation of money market funds by distinguishing between institutional and retail funds and by requiring institutional funds to price and transact their shares at a market value floating net asset value per share (NAV) and requiring retail funds to verify the non-institutional, natural person status of investors in those funds. The new regulations also allow for funds to operate as government money market funds, provided a fund invests at least 99.5% of its assets in US government securities, cash, and/or repurchase agreements that are fully collateralized by US government securities or cash. The SEC has also provided institutional and retail money market fund boards with the discretion to stem heavy redemptions by, among other tools, imposing liquidity fees and gates, if determined to be in the fund's best interests. Government money market funds may, but are not required to, impose liquidity fees and gates. The compliance date for the majority of the rule's requirements was October 14, 2016. In response to the rule, Aegon's money market funds in the United States have all converted to government money market funds, effective as of May 1, 2016. The impact of these requirements and any future regulations regarding investment advisors or other investment products, including proposed liquidity management rules and 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, sales, investments and oversight processes related to retail investors saving for retirement, variable annuity buyout offers, and share classes in mutual funds and variable annuities. 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 advisors, 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 Retirement Plans and IRAs**

Aegon USA administers and provides recordkeeping, investment and insurance services and products used to fund defined contribution plans, such as 401(k) plans, in addition to 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 US Department of Labor (DOL) and the U.S. Department of the Treasury (Treasury) have regulatory jurisdiction, respectively.

The DOL recently promulgated a conflicts of interest rule (the DOL Rule) that significantly expands the scope of retirement investment advice and imposes a fiduciary standard on providers in many contexts. The DOL Rule impacts

the delivery of products, such as variable annuities, and services to workforce retirement plans and participants in those plans and in IRAs, and is subject to interpretation and guidance from the DOL. Legislation 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.

#### [Tax Treatment of Insurance Companies and their Products and Plans](#)

Although the insurance business is regulated at 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 prior Administrations federal budget and by the US Congress. 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 and signed by the President 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

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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.

## Reinsurance ceded

Reinsurance agreements within Aegon USA are designed to achieve multiple company objectives. Agreements are used to manage or diversify risk, limit volatility, improve the company's capital position, limit maximum losses and enter into Strategic partnerships. The amount and type of reinsurance depend on the objective and availability of appropriate reinsurance in the market.

In order to minimize its exposure to reinsurer defaults, Aegon USA regularly monitors the creditworthiness of its reinsurers, and where appropriate, arranges additional protection through letters of credit, trust agreements and over collateralization. For certain agreements, funds are withheld for investment by Aegon USA rather than relying on the reinsurer to meet investment expectations. Default exposure is further reduced by the use of multiple reinsurers within certain reinsurance agreements. Aegon USA has experienced no material reinsurance recoverability problems in recent years.

Managing life insurance exposure requires various types of agreements with third-party reinsurers. Aegon USA relies heavily on quota-share and excess-of-loss reinsurance arrangements. The primary purpose of these agreements is to diversify Aegon USA's overall risk and limit the maximum loss on risks that exceed policy retention levels. Maximum retention levels vary by product, method of underwriting, and the nature of the risk being reinsured.

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The Results 2016 Europe cover the following operating segments: The Netherlands, United Kingdom (including VA Europe), Central & Eastern Europe, Spain & Portugal. 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 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 European 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 years 2016, 2015 and 2014:

**Income statement - Underlying earnings**

Amounts in EUR millions

**2016****Net underlying earnings**

Tax on underlying earnings

**Underlying earnings before tax by product segment**

Fair value items

Gains / (losses) on investments

	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
<b>Net underlying earnings</b>	414	89	47	(1)	<b>548</b>
Tax on underlying earnings	119	(30)	9	9	107
<b>Underlying earnings before tax by product segment</b>	534	59	55	8	<b>655</b>
Fair value items	(228)	(7)	-	(1)	(236)
Gains / (losses) on investments	189 (12)	153 -	- 1	(1) -	342 (10)



Net impairments					
Other income / (charges)	44	(678)	(23)	-	(658)
<b>Income / (loss) before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>526</b>	<b>(474)</b>	<b>34</b>	<b>6</b>	<b>92</b>
Income tax	(109)	18	(15)	(8)	(114)
<b>Net income / (loss)</b>	<b>418</b>	<b>(456)</b>	<b>19</b>	<b>(2)</b>	<b>(22)</b>
<b>2016</b>					
<b>Revenues</b>					
Life insurance gross premiums	2,015	9,888	399	191	12,493
Accident and health insurance premiums	210	36	1	73	320
General insurance premiums	266	-	179	92	536
<b>Total gross premiums</b>	<b>2,491</b>	<b>9,924</b>	<b>578</b>	<b>355</b>	<b>13,348</b>
Investment income	2,135	1,661	45	45	3,886
Fees and commission income	350	95	36	14	495
Other revenues	-	-	-	2	2
<b>Total revenues</b>	<b>4,976</b>	<b>11,680</b>	<b>659</b>	<b>416</b>	<b>17,732</b>
Commissions and expenses	975	667	244	172	2,058
of which operating expenses	821	394	143	88	1,445

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**Table of Contents**Business overview **Results of operations** **Europe 41****Income statement - Underlying earnings**

Amounts in EUR millions	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
<b>2015</b>					
<b>Net underlying earnings</b>	419	31	26	6	<b>482</b>
Tax on underlying earnings	118	(58)	10	7	77
<b>Underlying earnings before tax by product segment</b>					
	537	(27)	37	12	<b>559</b>
Fair value items	126	(25)	-	-	101
Gains / (losses) on investments	306	103	2	-	411
Net impairments	(20)	-	(2)	-	(22)
Other income / (charges)	27	(1,247)	(2)	17	(1,205)
<b>Income / (loss) before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>977</b>	<b>(1,196)</b>	<b>35</b>	<b>29</b>	<b>(156)</b>
Income tax	(223)	268	(11)	(7)	27
<b>Net income / (loss)</b>	<b>753</b>	<b>(928)</b>	<b>24</b>	<b>22</b>	<b>(129)</b>

**2015****Revenues**

Life insurance gross premiums	2,240	8,465	477	174	11,356
Accident and health insurance premiums	234	47	1	64	345
General insurance premiums	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
Fees and commission income	351	98	39	13	501
Other revenues	-	-	-	2	2
<b>Total revenues</b>	<b>5,575</b>	<b>10,941</b>	<b>726</b>	<b>373</b>	<b>17,615</b>
Commissions and expenses	1,053	907	264	144	2,368
of which operating expenses	831	398	143	70	1,442
<b>Income statement - Underlying earnings</b>					
Amounts in EUR millions	The	United	Central &	Spain &	
<b>2014</b>	Netherlands	Kingdom	Eastern	Portugal	Europe
			Europe		
<b>Net underlying earnings</b>	423	144	48	23	<b>638</b>
Tax on underlying earnings	135	(19)	12	5	133
<b>Underlying earnings before tax by product segment</b>					
	558	125	60	28	<b>771</b>
Fair value items	(766)	(31)	8	-	(789)
Gains / (losses) on investments	431	164	9	2	606
Net impairments	(12)	-	(42)	-	(54)
Other income / (charges)	(113)	(49)	(26)	(1)	(189)
<b>Income / (loss) before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>99</b>	<b>209</b>	<b>9</b>	<b>28</b>	<b>345</b>
Income tax	(37)	(35)	-	(7)	(79)
<b>Net income / (loss)</b>	<b>62</b>	<b>173</b>	<b>9</b>	<b>22</b>	<b>266</b>
<b>2014</b>					

**Revenues**

Life insurance gross premiums	3,982	5,057	524	196	9,759
Accident and health insurance premiums	233	56	1	60	351
General insurance premiums	501	-	152	72	725
<b>Total gross premiums</b>	<b>4,716</b>	<b>5,113</b>	<b>678</b>	<b>328</b>	<b>10,835</b>
Investment income	2,568	2,077	54	49	4,748
Fees and commission income	324	94	41	8	467
Other revenues	-	-	-	2	2
<b>Total revenues</b>	<b>7,608</b>	<b>7,284</b>	<b>773</b>	<b>387</b>	<b>16,052</b>
Commissions and expenses	977	821	258	120	2,175
of which operating expenses	726	476	138	60	1,401

The results of operations Europe for 2016 and 2015 that are based on the figures of the separate operating segments are further disclosed on the following pages.

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Amounts in EUR millions	<b>2016</b>	2015	%
<b>Net underlying earnings</b>	<b>548</b>	<b>482</b>	<b>14%</b>
Tax on underlying earnings	107	77	38%
<b>Underlying earnings before tax by business / country</b>			
The Netherlands	534	537	(1%)
United Kingdom	59	(27)	-
Central & Eastern Europe	55	37	51%
Spain & Portugal	8	12	(38%)
<b>Underlying earnings before tax</b>	<b>655</b>	<b>559</b>	<b>17%</b>
Fair value items	(236)	101	-
Gains / (losses) on investments	342	411	(17%)
Net impairments	(10)	(22)	53%
Other income / (charges)	(658)	(1,205)	45%
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>92</b>	<b>(156)</b>	<b>-</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	7	6	19%
Income tax	(114)	27	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(7)	(6)	(19%)
<b>Net income</b>	<b>(22)</b>	<b>(129)</b>	<b>83%</b>
Life insurance gross premiums	12,493	11,356	10%
Accident and health insurance premiums	320	345	(8%)
General insurance premiums	536	717	(25%)
<b>Total gross premiums</b>	<b>13,348</b>	<b>12,419</b>	<b>7%</b>
Investment income	3,886	4,693	(17%)
Fees and commission income	495	501	(1%)
Other revenues	2	2	47%
<b>Total revenues</b>	<b>17,732</b>	<b>17,615</b>	<b>1%</b>
Commissions and expenses	2,058	2,368	(13%)
of which operating expenses	1,445	1,442	-



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Amounts in EUR millions

	<b>2016</b>	2015	%
The Netherlands	111	130	(15%)
United Kingdom	66	72	(8%)
Central & Eastern Europe	83	91	(9%)
Spain & Portugal	39	39	1%
<b>Total recurring plus 1/10 single</b>	<b>299</b>	<b>332</b>	<b>(10%)</b>

Amounts in EUR million

	<b>2016</b>	2015	%
New premium production accident and health insurance	34	28	22%
New premium production general insurance	94	84	12%

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

	<b>2016</b>	2015	%
The Netherlands	6,686	5,137	30%
United Kingdom	5,791	6,096	(5%)
Central & Eastern Europe	265	227	17%
Spain & Portugal	31	29	8%
<b>Total gross deposits</b>	<b>12,773</b>	<b>11,489</b>	<b>11%</b>

**Exchange rates**

	<b>Weighted average rate</b>	
	<b>2016</b>	2015
Per 1 EUR		
Pound sterling	0.8187	0.7256
Czech koruna	27.0184	27.2662
Hungarian forint	310.9128	309.3147
Polish zloty	4.3616	4.1819
Romanian leu	4.4889	4.4428
Turkish Lira	3.3426	3.0206
Ukrainian Hryvnia	28.3029	24.1414

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The net result improved compared with 2015 to a loss of EUR 22 million in 2016 driven by higher underlying earnings before tax and lower losses from other charges, which more than offset a lower result from fair value items. The sale of the annuity portfolio of Aegon UK was the main driver behind Other charges of EUR 658 million in 2016. Underlying earnings before tax increased compared with 2015 to EUR 655 million in 2016. This was mainly the result of lower amortization of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the new retirement platform.

**Net income**

The net loss amounted to EUR 22 million in 2016 compared with a loss of EUR 129 million in 2015. Drivers of the improvement were higher underlying earnings before tax and lower losses from other charges, which more than offset a lower result from fair value items. Other charges in 2015 included a write down of deferred policy acquisition costs in the United Kingdom. The sale of the UK annuity portfolio was the main driver behind Other charges of EUR 658 million in 2016.

**Net income for the Netherlands**

Net income from Aegon's businesses in the Netherlands amounted to EUR 418 million in 2016, largely driven by underlying earnings before tax of EUR 534 million. Results on fair value items worsened compared with 2015 to a loss of EUR 228 million in 2016 as the impact of credit spreads movements, declining interest rates as a result of a mismatch on an IFRS basis between the valuation of interest rate hedges and liabilities, and declining interest rates as a result of the mismatch on an IFRS basis between certain interest rate hedges on the mortgage portfolio and the underlying mortgages more than offset positive real estate revaluations. Realized gains of EUR 189 million in 2016 were the result of asset-liability management adjustments and normal trading activity in the investment portfolio. Impairments amounted to EUR 12 million in 2016 and were mostly driven by the consumer loan portfolio. Other income amounted to EUR 44 million in 2016 and was driven by model updates.

**Net income for the United Kingdom**

Net income from Aegon's businesses in the United Kingdom amounted to a loss of EUR 456 million in 2016. The sale of the annuity portfolio which resulted in a loss of EUR 678 million recorded in other charges, was the main driver behind this loss. Losses from fair value items of EUR 7 million were driven by losses on equity hedging programs which were only partly offset by fair value gains related to Aegon's European variable annuities business. Positive components were realized gains which amounted to EUR 153 million in 2016 and were driven by rebalancing of the investment portfolio following the sale of the annuity portfolio, and underlying earnings before tax which amounted to EUR 59 million.

**Net income for Central & Eastern Europe**

Net income from Aegon's businesses in Central & Eastern Europe (CEE) amounted to EUR 19 million in 2016. Underlying earnings before tax of EUR 55 million were partly offset by other charges which amounted to EUR



23 million in 2016 as a result of additions to a legal claims provision. Impairment reversals amounted to EUR 1 million in 2016.

### Net income for Spain & Portugal

Net income from Aegon's businesses in Spain & Portugal amounted to a loss of EUR 2 million in 2016 as underlying earnings before tax of EUR 8 million were more than offset by income tax of EUR 8 million, losses on fair value items of EUR 1 million and losses on investments of EUR 1 million.

### Underlying earnings before tax

Underlying earnings before tax in 2016 increased 17% compared with 2015 to EUR 655 million. This was mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform compared to 2015.

### Underlying earnings before tax for the Netherlands

Underlying earnings before tax for the Netherlands in 2016 decreased by 1% compared with 2015 to EUR 534 million.

Underlying earnings before tax from Life & Savings declined by 5% compared with 2015 to EUR 309 million in 2016 as lower funding costs for the mortgage portfolio were offset by lower investment income and increased expenses, which were partly the result of new business initiatives.

Underlying earnings before tax from Pensions decreased by 7% compared with 2015 to EUR 197 million in 2016, mainly due to lower investment income.

The results from the Non-life business increased compared with 2015 to EUR 1 million in 2016. Lower investment income and weather related losses were more than offset by favorable claims experience driven by management actions implemented in 2015 and 2016 as well as the benefit from the divestment of the loss-making commercial line non-life business.

Underlying earnings before tax from the Distribution business increased compared with 2015 to EUR 27 million in 2016. The increase was mainly driven by expense reductions.

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**Underlying earnings before tax for the United Kingdom**

Underlying earnings before tax in the United Kingdom amounted to EUR 59 million in 2016.

Underlying earnings before tax from Life decreased compared with 2015 to EUR 50 million. This was mostly due to the impact of the sale of the annuity business partly offset by expense savings, favorable claims experience and reserve releases.

Underlying earnings before tax from Pensions improved compared with 2015 to EUR 9 million in 2016. This was mainly driven by lower amortization of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform compared to 2015.

**Underlying earnings before tax for Central & Eastern Europe**

Underlying earnings before tax from Central & Eastern Europe increased to EUR 55 million in 2016, up from EUR 37 million in 2015. This increase was primarily driven by a normalization of surrender levels in Poland which led to a negative impact following product changes in 2015.

**Underlying earnings before tax for Spain & Portugal**

Underlying earnings before tax from Spain & Portugal decreased compared with 2015 to EUR 8 million in 2016. Higher results from the joint ventures with Banco Santander were offset by adverse claims experience and increased investments in the direct channel and new business initiatives.

**Commissions and expenses**

Commissions and expenses decreased by 13% compared with 2015 to EUR 2.1 billion in 2016. Operating expenses were stable compared with 2015 and amounted to EUR 1,445 million in 2016.

**Commissions and expenses for the Netherlands**

Commissions and expenses decreased compared with 2015 to EUR 975 million in 2016. Operating expenses were down compared with 2015 to EUR 821 million in 2016 as the non-recurrence of one-time charges in 2015 and expense savings were partly offset by investments in new business initiatives, Solvency II related expenses, and the cost of an IT project that will result in annual expense savings going forward.

**Commissions and expenses for the United Kingdom**

Commissions and expenses decreased by 27% in 2016 to EUR 667 million compared with 2015. Operating expenses decreased by 1% in 2016 to EUR 394 million compared with 2015, mainly due to favorable currency movements, partly offset by expenses related to the acquisitions of Cofunds and BlackRock's defined contribution business.

**Commissions and expenses for Central & Eastern Europe**

Commissions and expenses decreased compared with 2015 to EUR 244 million in 2016. Operating expenses remained stable compared with 2015 at EUR 143 million in 2016.

#### Commissions and expenses for Spain & Portugal

Commissions and expenses increased compared with 2015 to EUR 172 million in 2016. Operating expenses increased compared with 2015 to EUR 88 million in 2016, mainly resulting from growth of Aegon's joint ventures with Santander in Spain & Portugal and project-related expenses.

#### Production

Gross deposits increased by 11% compared with 2015 to EUR 12.8 billion in 2016. The increase compared with 2015 was primarily driven by the growth of Knab, Aegon's online bank in the Netherlands.

New life sales declined by 10% compared with 2015 to EUR 299 million in 2016. The decline compared with 2015 was mainly the result of the absence of large pension buyouts in the Netherlands. New premium production for general and accident & health insurance increased compared with 2015 to EUR 129 million in 2016.

#### Production for the Netherlands

Gross deposits increased by 30% compared with 2015 to EUR 6.7 billion in 2016, mainly driven by the growth of Knab, Aegon's online bank. New life sales declined compared with 2015 to EUR 111 million in 2016, which was a result of the absence of large pension buyouts. Premium production for accident & health increased compared with 2015 to EUR 14 million in 2016, while general insurance production decreased compared with 2015 to EUR 21 million in 2016.

#### Production for the United Kingdom

Gross deposits of EUR 5.8 billion in 2016 were mainly driven by the addition of new customers as the platform continues to grow. New life sales decreased compared with 2015 to EUR 66 million in 2016.

#### Production for Central & Eastern Europe

In Central & Eastern Europe, new life sales in 2016 declined compared with 2015 to EUR 83 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 compared with 2015 amounting to EUR 43 million in 2016.

#### Production for Spain & Portugal

New life sales in Spain & Portugal in 2016 remained stable compared with 2015 and amounted to EUR 39 million as increasing sales through the joint venture with Banco Santander were offset by declines in other channels. General insurance and accident & health insurance sales increased compared with 2015 to EUR 50 million in 2016, also as a result of higher sales from the joint ventures with Santander.

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Amounts in EUR millions	<b>2015</b>	2014	%
<b>Net underlying earnings</b>	<b>482</b>	<b>638</b>	<b>(25%)</b>
Tax on underlying earnings	77	133	(42%)
<b>Underlying earnings before tax by business / country</b>			
Netherlands	537	558	(4%)
United Kingdom	(27)	125	-
Central & Eastern Europe	37	60	(39%)
Spain & Portugal <sup>1)</sup>	12	28	(56%)
<b>Underlying earnings before tax</b>	<b>559</b>	<b>771</b>	<b>(27%)</b>
Fair value items	101	(789)	-
Gains / (losses) on investments	411	606	(32%)
Net impairments	(22)	(54)	58%
Other income / (charges)	(1,205)	(189)	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(156)</b>	<b>345</b>	<b>-</b>
<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)	-
<b>Net income</b>	<b>(129)</b>	<b>266</b>	<b>-</b>
Life insurance gross premiums	11,356	9,759	16%
Accident and health insurance premiums	345	351	(2%)
General insurance premiums	717	725	(1%)
<b>Total gross premiums</b>	<b>12,419</b>	<b>10,835</b>	<b>15%</b>
Investment income	4,693	4,748	(1%)
Fees and commission income	501	467	7%
Other revenues	2	2	(20%)
<b>Total revenues</b>	<b>17,615</b>	<b>16,052</b>	<b>10%</b>
Commissions and expenses	2,368	2,175	9%
of which operating expenses	1,442	1,401	3%

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

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**Table of Contents**Business overview **Results of operations** **Europe 47****New life sales**

Amounts in EUR millions	<b>2015</b>	2014	%
The Netherlands	130	251	(48%)
United Kingdom	72	65	10%
Central & Eastern Europe	91	107	(15%)
Spain & Portugal	39	49	(20%)
<b>Total recurring plus 1/10 single</b>	<b>332</b>	<b>472</b>	<b>(30%)</b>

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

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

	<b>2015</b>	2014	%
The Netherlands	5,137	2,781	85%
United Kingdom	6,096	5,238	16%
Central & Eastern Europe	227	215	5%
Spain & Portugal	29	55	(47%)
<b>Total gross deposits</b>	<b>11,489</b>	<b>8,289</b>	<b>39%</b>

**Weighted average rate****Exchange rates**

Per 1 EUR	<b>2015</b>	2014
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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**Table of Contents**48 Business overview **Results of operations** **Europe****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 in 2015, mainly driven by the United Kingdom, compared with a profit of EUR 771 million in 2014. Gross deposits increased compared with 2014 to EUR 11.5 billion in 2015 primarily as a result of higher bank deposits in the Netherlands. New life sales declined compared with 2014 to EUR 332 million in 2015 mainly due to the absence of large pension buyouts in the Netherlands. New premium production for general and accident & health insurance increased compared with 2014 to EUR 112 million in 2015.

**Net income**

The net loss in 2015 was EUR 129 million, primarily due to other charges of EUR 1,205 million mainly 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 in 2015, mainly driven by the United Kingdom, compared with a profit of EUR 771 million in 2014. Results on fair value items improved compared with 2014 to a gain of EUR 101 million in 2015 driven mainly by positive revaluations on real estate and results of interest rate hedging in the Netherlands. Realized gains on investments amounted to EUR 411 million in 2015, and were mainly related to normal trading in the investment portfolio in the Netherlands. Net impairments improved compared with 2014 to a loss of EUR 22 million in 2015.

**Net income for the Netherlands**

Net income from Aegon's businesses in the Netherlands amounted to EUR 753 million in 2015, largely driven by underlying earnings before tax of EUR 537 million. Realized gains on investments totaled EUR 306 million in 2015, and were mainly the result of portfolio rebalancing in the low rate environment. Results on fair value items amounted to a gain of EUR 126 million in 2015, as positive revaluations on real estate and fair value gains on interest rate hedges more than offset fair value losses on the guarantee portfolio. Impairment charges amounted to EUR 20 million in 2015 and were primarily related to the consumer loan portfolio. Other income of EUR 27 million in 2015 mainly related to assumption changes and model updates.

**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. Underlying earnings before tax amounted to a loss of GBP 20 million in 2015. Realized gains on investments totaled GBP 75 million in 2015, 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 in 2015 as a result of unrealized losses on equity hedges to protect the capital position. Other charges of GBP 905 million in 2015 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 compared with 2014 by EUR 15 million in 2015 mainly as a result of lower impairments recorded in Hungary.

#### Net income for Spain & Portugal

Net income in Spain & Portugal remained level compared with 2014 at EUR 22 million in 2015.

#### Underlying earnings before tax

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



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**Table of Contents****Underlying earnings before tax for the Netherlands**

Underlying earnings before tax for the Netherlands in 2015 decreased by 4% compared with 2014 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 in 2015 increased by 5% compared with 2014, as lower funding costs, higher underlying earnings before tax 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 compared with 2014, primarily generated by profitable mortgage production, and lower funding costs compared with 2014 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% compared with 2014 to EUR 212 million in 2015. Higher underlying earnings before tax 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.

**Underlying earnings before tax for the United Kingdom**

Underlying earnings before tax in the United Kingdom amounted to a loss of GBP 20 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 from Life decreased by 26% compared with 2014 to GBP 59 million in 2015. 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, underlying earnings before tax increased in 2015 compared with 2014 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% compared with 2014 to EUR 1,442 million in 2015, mainly the result of currency movements.

### Commissions and expenses for the Netherlands

Commissions and expenses increased compared with 2014 to EUR 1,053 million in 2015. 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 higher employee benefit expenses.

### 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 to 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 to support growth of Aegon's joint ventures with Santander in Spain & Portugal.

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#### **Production**

Gross deposits increased by 39% in 2015 to EUR 11.5 billion. The 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.

New life sales declined by 30% in 2015 to EUR 332 million. The decline compared with 2014 was mainly the result of the absence of large pension buyouts in the Netherlands. New premium production for general and accident & health insurance increased to EUR 112 million in 2015 compared with 2014.

#### **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 in 2015, which was a result of the absence of large pension buyouts. Individual life sales remained stable compared with 2014 at EUR 32 million in 2015, while pension sales decreased compared with 2014 to EUR 98 million in 2015. Premium production for accident & health was stable in 2015 compared with 2014 at EUR 9 million. General insurance production increased to EUR 29 million in 2015 compared with 2014.

#### **Production for the United Kingdom**

New life sales decreased by 1% in 2015 to GBP 52 million compared with 2014. This was mostly the result of lower annuity levels largely offset by higher protection sales. Gross deposits increased compared with 2014 to GBP 4,423 million in 2015. This increase was 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% compared with 2014 to EUR 91 million in 2015. 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 compared with 2014 amounting to EUR 36 million in 2015 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 bancassurance joint ventures in Spain. For accident & health and general insurance business there were higher sales in Spain & Portugal in 2015 compared with 2014 totaling EUR 19 million for general insurance and EUR 19 million for accident & health.



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**Overview of the Netherlands**

Aegon has operated in the Netherlands for more than 170 years, and is a leading provider of life insurance and pensions<sup>1</sup>, with approximately 4,500 employees. Aegon the Netherlands is headquartered in The Hague, and its other main offices are in Hoofddorp, Leeuwarden and Groningen. Aegon the Netherlands owns the Unirobe Meeùs Group, one of the largest intermediaries in the Netherlands<sup>2</sup>.

**Organizational structure**

Aegon the Netherlands operates through a number of brands, including KNAB, TKP Pensioen, Optas and Unirobe Meeùs. Aegon is itself one of the most widely recognized brands in the Dutch financial services sector<sup>3</sup>.

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

CAPPITAL Premiepensioeninstelling B.V.

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 the Netherlands uses a variety of distribution channels to help customers access its products and services as suits their needs. In general, all business lines use the intermediary channel, which focuses on independent agents, brokers and retail sales organizations in the Netherlands. Aegon the Netherlands is making significant investments in its direct online channel, including the proprietary brands Knab, Kroodle and onna-onna. Aegon will nonetheless continue to distribute the largest part of its portfolio through intermediaries. In 2015, Aegon launched its own advice channel Aegon Advies, and the number of times advice was given to customers is growing rapidly ever since. Distribution channels such as online and the contact centers generated leads for Aegon Advies.

<sup>1</sup> Verbond van Verzekeraars, Verzekerd van cijfers, The Hague, 2016.

<sup>2</sup> Assurantie Magazine, AM Jaarcijfers. Deventer, 2016.

<sup>3</sup> Metrixlab brandtrackers.

Aegon the Netherlands also uses specific distribution channels to help customers access its products and services. The Pensions business line includes sales and account management, which serves large corporations and financial institutions, such as company and industry pension funds. In 2016, Aegon TKP launched Stap general pension fund (Stap Algemeen Pensioenfonds), a solution for pension funds that no longer wish to continue on an individual basis due to the current high legal requirements and costs. Aegon Bank uses the direct channel, primarily for savings, whereas Aegon Schadeverzekering has Strategic partnerships for the sale of its products, and uses an online channel.

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

### **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.

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.

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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 contained a 4% guarantee when sold. In 1999, the guarantee for new products decreased to 3%; and in 2013, the guarantee on new products was reduced to 0%.

Various profit-sharing mechanisms exist. Bonuses are either paid in cash (usually for a pension, as described below) 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 different 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 mechanisms. 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 those premiums invested in equity funds, and the initial guarantee period is ten years. A certain type of unit-linked products called tontine plans have 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. 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 externally. Besides residential mortgage-backed securities in



Saecure Aegon's Dutch residential mortgage-backed securities program and private placements, the Aegon Mortgage fund is the main source of external funding. For this business, Aegon originates the mortgage loans fully for account of third parties and remains the service provider for these mortgage loans.

### Savings and Banking products

Aegon Bank N.V. aims to achieve its vision and ambition through two business units: Aegon Bank and Knab.

Aegon Bank focuses on the income and housing market, together with seeking to reinforce the Aegon Netherlands-wide pensions offering. Customers are increasingly having to make provision for their current and future income and wealth since the government changed the rules for pension provisions.

The bank offers simple and high quality products. These include both savings products focused on security, and investment products focused on a suitable risk/return profile that fits the customer's need and risk appetite. Processes are designed in such a way as to provide the maximum benefit to customers, and customer service is based on the principles of easy access, speed, first time right, convenience, insight and understanding.

Aegon Bank's focus is on customers whose income and wealth is in the middle-market, in line with Aegon the Netherlands's target group. Products are distributed directly to our customers. For more complex advice products, independent financial advisers continue to be a very important distribution channel for Aegon Bank. Aegon Bank's activities mainly focus on Banksparen products. 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.

Knab aims to be the most customer-oriented bank in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. It reflects the core of Aegon's purpose, offering customers both insight and an overview of their finances through its financial planning tools and alerts. Furthermore, Knab offers a wide range of banking and investment products with a focus on wealth accumulation and payment services.

### Investment contracts

Investment contracts are investment products that offer returns and generate fee income from the performance of the investments.

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

**Pensions**

The Pensions business provides a variety of pension products to pension funds and companies both full service contracts and low cost subscriptions.

**Products**

Aegon the Netherlands provides full-service pension solutions, administration-only services and life or disability insurances to company and industry pension funds, large companies and owners of small and medium-sized companies.

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 with a contractual interest rate of 3% or 4%. At present, the contracts offered to clients hold a guarantee of 3% or market interest rate, and Aegon always relates guarantee cost to the current market interest rate. 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. Some 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, both 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. Customers also have the opportunity on an annual basis to decide as to whether they wish to continue with their subscription. Larger group of customers are currently becoming more interested in these low cost and flexible solutions which results in a significant flow from separate account and other 5-year contracts to subscription products.

These subscription products include 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. Next to defined benefit subscriptions Aegon the Netherlands also offers defined contribution products on a subscription basis. 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.

<sup>1</sup> Verbond van Verzekeraars, Verzekerd van cijfers, The Hague, 2016.

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

A decrease in the number of company and industry pension funds in the Netherlands is continuing. 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. Current market conditions lead to significantly fewer buy-outs in the Dutch market than in recent years.

On December 22, 2015, legislation was passed that enables companies to set up an Algemeen Pensioen Fonds (General Pension Fund). In 2016, Stap (a separate legal entity) introduced this new proposition to clients. This offers pension solutions to clients in which STAP 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 one of the country's leading pension providers.

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 CAPPITAL offers the same plans for large companies. On June 20, 2016, Aegon the Netherlands was the first company to receive approval from the Dutch Central Bank to launch a general pension fund Stap, together with TKP. Stap is a pension pooling vehicle that enables separate financial administration for multiple pension plans from multiple employers. This vehicle enables smaller pension schemes to benefit from economies of scale and to comply with complex pension regulations, meaning that a greater percentage of the employees' pension premium is invested, and that employers and participants receive the same high quality of service as a traditional pension plan. The fiduciary investments for Stap are carried out by TKP Investments, a subsidiary of Aegon Asset Management.

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#### **Non-life**

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

#### **Products**

##### **General insurance**

During 2015, Aegon revised its general insurance strategy and consequently concluded that its commercial portfolio (including authorized agent and co-insurance distribution channels) was non-core. The commercial portfolio was sold to Allianz Benelux NV on January 18, 2016, and was subsequently transferred on July 1, 2016. Following this divestment, Aegon the Netherlands has focused exclusively on private lines in general insurance, with products offered providing cover for property, motor, travel, legal aid and casualty.

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

#### **Distribution**

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

#### **Competition<sup>1</sup>**

Aegon the Netherlands faces strong competition in all of its markets from insurers, banks, investment management companies and pension funds. Its main competitors are Achmea, NN Group, ASR, Delta Lloyd and Vivat. 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 two in 2015 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

1 Verbond van Verzekeraars, Verzekerd van cijfers, The Hague, 2016.

accounted for almost 90% of total premium income in 2015 in the insurance market. Aegon the Netherlands is one of the main companies in the overall pension market, and has been the market leader in the pension market for insurance companies for several years. Aegon the Netherlands is ranked sixth in the individual life insurance market. It is one of many insurers in the non-life market, where in 2015, sixteen companies accounted for 90% of the total premium income. In terms of premium income, Aegon the Netherlands non-life market share is around 4%.

In the mortgage loans market, Aegon the Netherlands held a market share of approximately 9% based on new sales in 2015, making it the fourth largest mortgage loan provider in the market. Rabobank, ING and ABN AMRO are the largest mortgage loan providers in the market, and competition is increasing from foreign competitors and capital from pension funds.

Aegon the Netherlands share is growing in the market for Dutch household savings. In 2015, its market share was approximately 2.1%, which is relatively small in comparison to banks such as Rabobank, ING and ABN AMRO.

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 all 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 maintaining its leadership position.

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Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The aim of the Wft is to embed the cross-sectorial functional approach within the Dutch supervisory system. This approach replaced the prior sectorial 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 Dutch Authority for the Financial Markets (AFM).

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. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank (ECB).

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 customers.

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 embedded 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. A large part of the Level II Solvency II rules are, however, also set out in EU regulations, which apply directly in EU member states, and as a consequence have not been implemented into national legislation, such as in the Decree on Prudential Rules under the Wft (Besluit prudentiële regels Wft).

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

Aegon Levensverzekering N.V.;

Aegon Schadeverzekering N.V.;

Aegon Spaarkas N.V.; and

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 II**

Aegon the Netherlands uses a Partial Internal Model (PIM) to calculate the solvency position of its insurance activities under Solvency II. The calculation includes the use of the volatility adjustment, but does not include the use of any transitional measures. The internal model was approved on November 26, 2015, by the supervisor DNB as part of the Internal Model Application Process. Following the Internal Model Application Process, Aegon the Netherlands has made minor changes to the internal model and has submitted several major changes to its regulator (DNB) for approval. Until approval, these model changes are not reflected in the solvency position of Aegon the Netherlands. The solvency position of the banking activities will continue to be calculated using the CRR/CRD IV framework.

## **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).

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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 application in full of all measures under CRD IV (including any national implementation thereof in the Netherlands) has to be completed before January 1, 2019.

The CRR has been 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 increased capital against derivative positions, the introduction of two supplementary buffers (a capital conservation buffer and a counter-cyclical buffer), a new liquidity framework (liquidity coverage ratio and net stable funding ratio and a leverage ratio. The leverage ratio is defined as Tier-1 capital divided by a measure of non-risk weighted assets. If Basel III is followed under CRD IV, the leverage ratio may not fall below 3%, although uncertainty still remains as to the exact percentage and the scope of the leverage ratio under CRD IV. With respect to the percentage, the Dutch government has announced that it wishes to implement a leverage ratio of at least 4% for large Dutch banks, which does not apply to Aegon Bank N.V. The ultimate aim of Basel III/CRD IV is to reduce leverage in order to bring institutions' unweighted assets more in line with their Tier-1 capital. The capital requirements include qualitative in addition to quantitative requirements.

Capital of the highest quality, Common Equity Tier 1, forms a substantial part of the capital of a credit institution. Additional Tier 1 capital forms the rest of the Tier 1 capital. In addition, the capital of a credit institution may be composed of Tier 2 capital, which is of a lesser quality than Tier 1 capital.

EU Directive 2014/59/EU (the Banking Recovery and Resolution Directive, BRRD) and Regulation 806/2014 on the Single Resolution Mechanism (the SRM Regulation) form the European framework for recovery and resolution for (among others) ailing banks, certain investment firms and their holding companies. The BRRD was implemented in the Netherlands on November 26, 2015, by means of an amendment of the Wft (the BRRD

Implementation Act). The SRM Regulation was adopted on July 15, 2014. Those parts of the SRM Regulation that deal with recovery and resolution entered into force on January 1, 2016.

The BRRD provides for early intervention measures that may be imposed by the national competent authority in respect of Aegon Bank N.V. in the event that its financial condition is deteriorating. These early intervention measures could pertain, among others,

to a change of its legal or operational structure, the removal of (individuals within) senior management or the management body, or the appointment of a temporary administrator to work together with or replace such (individual within) senior management or management body. The national resolution authority may also under certain circumstances decide to write down or convert relevant capital instruments, including Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, in a specific order.

Were Aegon Bank N.V. to fail or be likely to fail and the other resolution conditions were also met, the national resolution authority would be able to place Aegon Bank N.V. under resolution. As part of the resolution scheme to be



adopted by the national resolution authority it may decide to apply certain resolution tools and exercise its powers pursuant to the implemented BRRD in order to give effect to such resolution tools. In addition, the SRM Regulation and the BRRD Implementation Act introduce the bail-in tool which gives the national resolution authority the power to write down or convert into equity certain debt and other liabilities of the institution.

Pursuant to the SRM Regulation and the BRRD Implementation Act, 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 competent 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 investment firms and fund management companies as well as general pension funds.

### **Asset liability management**

Aegon the Netherlands offers products that absorb risks on behalf of its customers, such as market and underwriting risks. The Company actively manages these risks. It is unlikely that risks taken on from customers will automatically lead to the preferred risk profile, and for this reason, Aegon the Netherlands has a risk strategy in place that provides guidelines regarding Aegon's overall risk appetite and risk tolerance. Aegon maintains certain risks that are within its risk appetite, but mitigates the remaining risks, for instance through hedging programs and derivatives. For each portfolio containing derivatives, detailed guidelines have been implemented on the scope of instruments and the purpose of the derivatives.

Within its overall Asset liability management (ALM) framework, Aegon mainly uses fixed income instruments to match its liabilities. These are to a large extent high-quality government and corporate bonds. In addition, a sizeable portfolio of residential mortgages in the Netherlands has been built up to match liability cash flows. Derivatives are used in addition to these instruments in order to hedge the guarantees embedded in some of Aegon the Netherlands's products and optimize ALM. This can be undertaken through directly targeting specific risks,

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such as interest rate risk via interest rate swaps or longevity risk via longevity swaps. For more complex risk exposures, Aegon the Netherlands uses a combination of options, total return swaps and variance swaps.

Aegon sees derivatives as a suitable instrument to use in its ALM processes. The derivatives market is a highly regulated market that has in recent years been subject to many changes following the introduction of European Market Infrastructure Regulation (EMIR) and Dodd-Frank Act. Any counterparty risks embedded in such transactions are mitigated by having high quality collateral in place in all its derivatives transactions. The introduction of central clearing for parts of the derivatives markets has increased collateral requirements and reduced counterparty risk. Liquidity risk, which is the direct result of the collateral processes, needs to be carefully managed. Due to market movements Aegon the Netherlands' collateral position may change rapidly, and in order not to breach any collateral agreements, Aegon has to ensure sufficient high quality collateral is available at all times in order to comply with collateral calls from its counterparties. Liquidity stress testing has been set up to monitor this need. Operational risk is another key risk, given that derivatives are specialized instruments that require expertise as well as a specific (IT) infrastructure in order to be properly managed. Furthermore, as recent developments have shown, regulatory risk as a category within operational risk, needs to be constantly monitored. Aegon's automated processes regarding real-time monitoring, automated controls and integrated reporting reduce operational risks and enable it to comply with the increasing demands that result from regulations.

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 determine 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.

**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 has reinsured its term life assurance through a quota-sharing contract between its subsidiary Aegon Levensverzekering N.V. and Reinsurance Group of America (RGA).

For non-life, Aegon the Netherlands only reinsures its property, general and motor third-party liability business. The main counterparties are Hannover Re, SCOR Re Europe and QBE Re. For property insurance, an excess of loss contract is in place with a retention level of EUR 1.5 million for each separate risk, and EUR 15 million for each windstorm event. For motor third-party liability insurance, Aegon the Netherlands has reinsurance in place with a retention level of EUR 1.5 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.

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### **Overview of United Kingdom**

Following the agreed sale of its own annuity portfolio and the acquisition of Cofunds and the BlackRock's Defined Contribution business, Aegon UK will be primarily a long term savings and protection business, supporting customers who are retired or saving for their retirement. Products are increasingly sold through its online platform, which enables advisors, employers and individuals to buy and manage investments online, and to also have a single view of investments. Aegon Ireland is a specialist provider reinsurer of variable annuity (guarantee) products in the United Kingdom, and Germany. It also offers offshore investment bonds in the United Kingdom.

### **Organizational structure**

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

Scottish Equitable PLC, and  
Aegon Investment Solutions Ltd

These subsidiaries operate under the Aegon brand.

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.

### **Acquisitions and disposals**

Aegon UK's business strategy is focused on developing the business as the leading platform savings, investments and pensions provider in the market. For this reason, during 2016 it made a number of strategic changes in order to align its business model with its strategy.

On May 3, 2016, Aegon UK announced an agreement to acquire BlackRock's UK defined contribution (DC) platform and administration business, strengthening its position as a leading player in the UK workplace market, adding Master Trust and Investment Only capability as well as assets under administration of around GBP 12 billion. This transaction will be finalized in 2017 or 2018, once the legal ownership has been transferred through a so-called Part VII transfer.

On April 11, and May 23, 2016, Aegon announced the divestment of its own annuity portfolio to Rothesay Life and Legal & General respectively. Aegon initially reinsured GBP 9 billion of liabilities to Rothesay Life and Legal & General. The divestments are expected to be completed in 2017 upon the Part VII transfers. The transaction was consistent with the company's ambition to free up capital from non-core businesses. The capital position of the company improved as a result of the transaction. Aegon has approximately GBP 1 billion annuity liabilities remaining through an inward reinsurance transaction.

<sup>1</sup> Source: UK Adviser Platform Guide, Issue 27, September 2016.

On January 1, 2017, Aegon UK completed the acquisition of Cofunds, funding for which came from the divestment of the annuity portfolio. The transaction demonstrates Aegon's commitment to the retail platform market. Intermediaries that use Cofunds will be upgraded to an enhanced version of Aegon's platform.

The combination of the acquisitions and Aegon's program to upgrade existing customers to the digital solutions platform will see Aegon create the largest<sup>1</sup> UK platform with approximately GBP110 billion assets under administration, and provide broad expertise across the savings, investments and pensions markets.

## **Overview of sales and distribution channels**

In the United Kingdom, Aegon has two main distribution channels: retail and workplace intermediaries. These are supported by Aegon UK's customer capability, which offers employees and adviser clients a market leading portal to view and manage their money. Aegon UK's award-winning platform supports these channels in an integrated way, making it easier for customers to move between products and channels. The platform continues to be the fastest-growing platform in the UK market.

### **Retail channel**

Aegon UK offers a comprehensive proposition to intermediaries and strategic partners underpinned by technology that drives efficiency and supports the profitability of advisors' businesses.

Aegon Retirement Choices (ARC) helps advisors and their customers save for the long term and manage the transition from work to retirement. ARC uses leading-edge digital technology to deliver an intuitive method of saving for the long term including retirement, taking income in retirement, including the UK's only on-platform guaranteed drawdown product, 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

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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 fund supermarket 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.

The acquisition of Cofunds made Aegon UK the UK's leading fund supermarket adding approximately GBP 80 billion of assets, predominantly in ISAs and GIAs, complementing Aegon UK's core pension expertise. The modernization of the Cofunds business by migrating it on to Aegon's market-leading technology will see Aegon UK emerge with a market-leading<sup>2</sup> position among intermediary platforms.

**Workplace channel**

Aegon is building and diversifying its workplace distribution capability to cover a range of intermediaries from Independent Financial Advisors (IFAs) to large Employee Benefit Consultants (EBCs) by utilizing successful partnerships such as with Mercer. Services that Aegon UK offers include:

Workplace Aegon Retirement Choices, 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.

The strength of Aegon's proposition has historically been in the small to medium-sized employer market. The acquisition of BlackRock's defined contribution pension business expanded Aegon UK's market position in the large employer market. BlackRock's main focus in this market is on Mastertrust products, defined benefit target, investment-only business, and unbundled defined contribution pension schemes.

**Customer capability**

Aegon's Retiready digital retirement planning service 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.

Retiready is focused on existing Aegon UK customers that no longer have an advisor. The majority of customers receive the service having been upgraded from Aegon UK's existing business, thereby allowing longstanding customers to benefit from the advantages of a modern digital pension. Retiready customers have access to a number of tools to help them better engage with and manage their retirement savings. In 2016, over 160,000 customers with

assets of around GBP 4.3 billion were upgraded to the new proposition.

### Aegon Ireland

Aegon Ireland reinsures Aegon UK's Secure Retirement Income product, a guaranteed SIPP/drawdown product on the ARC platform. It also manages an existing book of variable annuity (guaranteed) contracts through Aegon UK's retail advisor channel since 2006. In Germany, Aegon Ireland has its own branch office in Frankfurt and has a number of distributors and a customer service team.

Aegon Ireland offshore investment bonds are offered exclusively in the UK. They are not actively marketed, and are distributed through the ARC proposition, other third-party propositions, banks and financial advisors.

### Overview of business Lines

Reporting for Aegon UK is organized along two business lines: Life and Pensions and Investments. Life comprises protection products sold to individuals and small to medium-sized companies (SMEs). Pensions comprises a broad range of workplace and personal pensions in addition to investment products and variable annuities.

Aegon UK was in 2016 reorganized into Digital Solutions, which oversees the core platforms and protection business lines, and Existing Business, which oversees the existing life and pensions business. These business lines have separate leadership teams.

1 Source: UK Adviser Platform Guide, Issue 27, September 2016.

2 Source: UK Adviser Platform Guide, Issue 27, September 2016.

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The Digital Solutions business is responsible for Aegon UK's new digital platform propositions sold through Retail Advisor, Workplace and Direct to Customer channels, together with the protection lines. The majority of new assets going forward will be accumulated in this business. In addition, where appropriate, Aegon UK is upgrading customers from its Existing Business to Digital Solutions 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 Existing 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 pensions, individual pensions and with-profits policies.

**Products**

Aegon UK's main product focus is on savings, investments, pensions and protection products.

**Savings, Investments & Pensions**

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

- Individual Saving Accounts;
- General Investment Account;
- Flexible personal pensions;
- Self-invested personal pensions;
- Group personal pensions;
- Group Self-invested personal pensions;
- Mastertrust;
- Investment Only capability for workplace pension schemes;
- Phased retirement options and income drawdown;
- Secure retirement income (SRI), for which the underlying guarantee is reinsured by Aegon Ireland PLC;
- Off-shore investment bonds.

**Protection products**

Aegon UK offers a range of products for individual customers, including life cover, critical illness and income protection. 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 to medium-sized companies that wish to insure key personnel. This is a key market for Aegon, and the company currently protects 400,000 customers.

**Traditional Pensions**

Traditional Pensions include a variety of individual and corporate pensions, with-profits products and annuity products (via Legal & General). These products are not actively marketed.

## **Competition**

There are a diverse range of competitors in the markets in which Aegon UK operates, and market dynamics are continuing to evolve. 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 platform used by intermediaries to manage their clients assets, or as a preferred partner for EBCs advising corporate clients.

One of the key drivers for competition is the considerable regulatory and legislative change that is continuing to create new commercial opportunities. For example, automatic enrolment (which requires all employers to offer pensions to their employees) is driving greater numbers of customers to save in a pension, and the proposed introduction of a Lifetime Individual Savings Account (ISA) will provide an additional incentive for many people to save for retirement.

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 and take flexible income through drawdown, or secure income via an annuity or guaranteed product. This development has had a substantial impact on the at retirement market, with a large reduction in annuity sales and an increase in the purchase of income drawdown products, in addition to supporting a shift from traditional products to platforms better able to support the delivery of flexible solutions to customers.

## **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.



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The UK vote to leave the European Union (EU) on June 23, 2016, has significant implications for the UK. Much financial regulation currently applicable in the UK derives from EU legislation. This regulation will remain in force until any changes are made, which will be a matter for the UK government and the UK parliament. Aegon UK must therefore continue to comply with UK law, including those that derive from EU law and continue with implementation plans for legislation that is anticipated to come into effect. The FCA has acknowledged that the longer term impacts of the decision to leave the EU on the overall regulatory framework for the UK will depend, in part, on the relationship that the UK seeks with the EU in the future.

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**

The European Union Insurance Directives referred to collectively as Solvency II are incorporated into UK law. The Solvency II directives came into effect on January 1, 2016. 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.

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.

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, a breakdown of the Solvency Capital Requirements (SCR), 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.

## Solvency II

Under Solvency II, life insurance companies are required to maintain certain levels of shareholders' equity in accordance with EU directives, and have to hold the level of capital required to withstand a 1 in 200 shock on a 1-year value at risk basis.

Since the introduction of Solvency II on January 1, 2016, Aegon has been using a PIM to calculate the solvency position of its insurance activities in the United Kingdom. The internal model was approved on December 14, 2015 by the PRA as part of the Internal Model Application Process.

In addition, Aegon uses the matching adjustment in the calculation of the technical provisions for its annuities, and uses the volatility adjustment in the calculation of the technical provisions for the With Profits business with investment guarantees. Following the reinsurance of the majority of its annuity business in 2016, Aegon no longer uses the transitional measures on technical provisions.

Aegon Ireland has been using the Standard Formula to calculate the solvency position of its insurance activities.

## 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.

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For its with-profits business, Aegon UK's guiding philosophy is to match guarantees with appropriate investments. The nature of with-profits 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 the fund are produced on a periodic basis. These reports allow the investment strategy for the with-profits fund to be discussed, and are summarized for the With-Profits Forum, a sub-committee of the Board of Aegon UK.

For unit-linked business, customers' money is invested across a range of internally and externally managed funds. Derivative positions are held to protect the value of future fee income. The MIC monitors the performance of the investment managers against fund benchmarks. For the remaining annuity business, this is invested in corporate bonds and gilts in line with the matching adjustment principles. The Own Funds are invested in line with our Risk Appetite Framework.

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-profits fund**

The invested assets, insurance and investment contract liabilities of Aegon UK's with-profits 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-profits fund are held 100% for participating policyholders.

**With-profits fund 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 the policyholder-owned fund (otherwise called the with-profits fund).

This fund contains 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.

Certain policies 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-profits

fund, and therefore impact payouts to with-profits 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-profits 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-profits 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-profits fund

Aegon UK's with-profits 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 and overseas-fixed interest securities, UK property and cash. The with-profits 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-profits 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.

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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 put options and interest rate swaps and 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-profits fund is now closed to new business, the free assets are gradually being distributed to with-profits policyholders through the bonus system outlined above. This includes ensuring that any surpluses in the with-profits fund from other (historic) business lines can be distributed to existing with-profits policyholders at a suitable rate, helping to prevent a tontine effect as the number of with-profits 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.

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.

On April 11, 2016 and May 23, 2016, Aegon announced deals with Rothesay Life and Legal & General respectively for the sale of the annuity portfolio. These deals are structured as reinsurance arrangements until the legal Part VII transfer processes are complete, which is due to be mid-2017. The longevity swaps that Aegon is holding to back these annuity portfolios will be transferred as part of the Part VII process in 2017.

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 .

**Table of Contents****64 Business overview Results of operations Central & Eastern Europe****Overview of Central & Eastern Europe**

Aegon has operations in the Central & Eastern European (CEE) countries of the Czech Republic, Hungary, Poland, Romania, Slovakia, and Turkey. It 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 Powszechnie 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.); and
- Aegon Slovakia Pension Management Co. (Aegon, d.s.s., a.s).

**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, 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 mainly consists 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 whether an individual is a smoker or non-smoker, and uses standard and preferred pricing dependent on the respective health of customers.

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

In Poland, Aegon focuses on unit-linked as well as traditional life products. In line with the local regulatory and market developments, the products marketed have been modified in recent years.

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, becoming disabled, or being hospitalized. Aegon is a significant market player in Hungary in the unit-linked segment<sup>1</sup>.

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 developed slowly due to the unstable political and economic climate, and Aegon entered into an agreement on September 21, 2016 to sell 100 percent of its shares to TAS Group. The transaction was completed on December 16, 2016.

In Romania, Aegon undertakes life insurance business via a branch of Aegon Poland Life Insurance Company. The Romanian branch sells unit-linked, term life and endowment insurance policies.

Also in Hungary, Aegon Hungary Home Savings and Loan Association provides a saving product combined with a preferential loan option, which is subsidized by the state during the saving period.

<sup>1</sup> Source: MABISZ, <http://www.mabisz.hu/en/market-reports.html>. Webpage visited February 9, 2017.

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**Table of Contents**Business overview **Results of operations** **Central & Eastern Europe** 65**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. After its launch, the mortgage loan business was affected by several legislative changes. 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 was impacted by reforms to the pension system in several countries in the region during recent years. 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.

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.

On June 21, 2016, Aegon announced that it had signed an agreement with Nordea to take over the management of Nordea's Pillar 2 pension fund in Poland. The deal, which is subject to regulatory approval, will bring economies of scale and will further improve the quality of services that Aegon provides to its customers. As of December 2016, the pension fund under Aegon PTE S.A.'s management had assets of PLN 6 billion (EUR 1.4 billion) and 914,000 members. Following the merger, the fund will grow to PLN 13.5 billion (EUR 3.1 billion) based on 2016 year-end data<sup>1</sup>.

In terms of assets under management, Aegon's private pension funds in Poland, Slovakia and Romania, and its voluntary pension fund in Hungary, are significant market players in the respective countries. In terms of numbers of members, Aegon has a significant market presence in Poland, Romania, and Hungary. As of December 2016, 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, in addition to some wealth and liability industrial risk and travel insurance). Aegon is the leading insurance company in the Hungarian household market.<sup>2</sup> 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 has operated branch offices selling household insurance policies in Slovakia since 2010 and Poland since 2011.

**Competition**



In 2016, 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 market<sup>3</sup>. In Turkey, Aegon was ranked ninth based on written premium at the end of November<sup>4</sup>. Aegon is a less significant market participant in Poland, Slovakia, the Czech Republic and Romania.

Aegon was ranked third in terms of both the number of participants and managed assets in 2015 in the voluntary pension fund market in Hungary<sup>5</sup>. For managed assets, in November 2016, Aegon was ranked fifth in the Slovakian private pension market<sup>6</sup>. In December 2016, Aegon ranked tenth in terms of both the number of participants and managed assets in Poland<sup>7</sup>. At year-end 2016, Aegon was the fourth largest provider in the Romanian mandatory private pension market, both in terms of net assets under management and number of participants<sup>8</sup>.

- 1 Source: KNF, [https://www.knf.gov.pl/en/about\\_the\\_market/Pension\\_system/Financial\\_and\\_statistical\\_data/Monthly\\_data.html](https://www.knf.gov.pl/en/about_the_market/Pension_system/Financial_and_statistical_data/Monthly_data.html). Webpage visited February 9, 2017.
- 2 Source: MABISZ, Hungarian Insurance Companies' Yearbook 2015, <http://www.mabisz.hu/images/stories/docs-eng/publications/yearbook-2015-english.pdf>. Webpage visited February 9, 2017.
- 3 Source: MABISZ, Q32016 Quarterly report, <http://www.mabisz.hu/images/stories/docs-eng/publications/quarter/2016-i-iii-quarter.pdf>. Webpage visited February 9, 2017.
- 4 Source: Insurance Association of Turkey, <http://www.tsb.org.tr/official-statistics.aspx?pageID=1003>. Webpage visited February 9, 2017.
- 5 Source: MNB, Aranykönyv 2015, <http://www.mnb.hu/felugyelet/idosorok/v-aranykonyv>. Webpage visited February 9, 2017.
- 6 Source: ADSS, <http://www.adss.sk/en/Default.aspx?CatID=60&fundID=611>. Webpage visited February 9, 2017.
- 7 Source: KNF, [https://www.knf.gov.pl/en/about\\_the\\_market/Pension\\_system/Financial\\_and\\_statistical\\_data/Monthly\\_data.html](https://www.knf.gov.pl/en/about_the_market/Pension_system/Financial_and_statistical_data/Monthly_data.html). Webpage visited February 9, 2017.
- 8 Source: APAPR, <http://www.apapr.ro/statistics.html>. Webpage visited February 9, 2017.

**Table of Contents**66 Business overview **Results of operations** **Central & Eastern Europe****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); and
- Undersecretariat of Treasury (Turkey).

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.

**Solvency II**

As of January 1, 2016, Solvency II, the new insurance solvency regime, became effective in European Economic Area (EEA) countries. Aegon – EU-domiciled entities in Central & Eastern Europe use the Standard Formula to calculate the solvency position of their insurance activities. The activities in Turkey and, prior to its disposal, in Ukraine have been included through Deduction & Aggregation on a Solvency II Standard Formula basis.

The foundation and operations of voluntary pension funds are regulated in Hungary 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. Furthermore, each country unit in the CEE region has an Asset Liability Committee that coordinates ALM-related reporting and makes the relevant decisions within the framework set by local management or by the Regional Risk and Capital Committee.

## 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-. 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.

The five 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); and

- Excess of loss treaties for other risks (up to EUR 1.0 million retention);

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).

**Table of Contents**Business overview **Results of operations** **Spain & Portugal** 67**Overview of Spain & Portugal**

Aegon entered the Spanish insurance market in 1980. 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 & Portugal are:

- Aegon España S.A.U. de Seguros y Reaseguros;
- Aegon Administracion y Servicios A.I.E.;
- Aegon Activos A.V, S.A.;
- Aegon Santander Generales Seguros y Reaseguros S.A. (51%), in partnership with Banco Santander;
- Aegon Santander Vida Seguros y Reaseguros S.A. (51%), in partnership with Banco Santander;
- Aegon Santander Portugal Vida-Companhia de Seguros de Vida S.A. (51%), in partnership with Banco Santander Totta;
- Aegon Santander Portugal Não 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 66% of life sales, whereas brokers and direct customers account for 25% and 9% of the total respectively<sup>1</sup>. Aegon Spain distributes its products nationwide through partner branches and its own sales network.

In the Portuguese market, approximately 67% (2015: 69%) of pure life risk premiums and 29% (2015: 29%) of household insurance premiums are written through bancassurance channels, where credit-related policies mostly related to mortgages play a significant role<sup>2</sup>.

**Aegon Spain and Banco Santander**

Since June 4, 2013, Aegon Spain and Banco Santander have partnered to distribute a number of insurance products.

Banco Santander is the largest financial institution in Spain, with over 3,000 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%. Since December 28, 2016 Aegon Spain and Banco Santander have further extended their partnership agreement to distribute health insurance products.

Since December 31, 2014, Aegon Spain and Banco Santander Totta Seguros, a Portuguese insurance company that is part of the Santander International group, have partnered to distribute a number of insurance products. The partnership 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; and Aegon Santander Portugal Não Vida, for general insurance products. Aegon has a 51% share in each entity.

On December 21, 2015, Banco Santander Totta announced that it had acquired domestic bank Banco Internacional de Funchal (Banif). On December 5, 2016, Aegon and Santander Totta reached an agreement in order to add Banif's retail and corporate network – consisting of 174 branches and 370,000 clients – to the current distribution network for Aegon Santander Portugal Vida and Aegon Santander Portugal Não Vida.

### **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 650 Liberbank, S.A. branches. Aegon's share in this entity is 50%.

1 Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones.

2 Associação Portuguesa de Seguradores.

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**Table of Contents****68 Business overview Results of operations Spain & Portugal****Distribution**

Aegon Spain offers life insurance, general insurance, health, pension products and mutual funds. It uses three main distribution channels: bancassurance, which comprises 58% of the total; 39% through its own network of brokers and agents; and 3% 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 products 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 & 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 has been offering general insurance products since 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 the country.

The gross premium written contribution in 2016 for each of Aegon Spain's business lines was 54% for life insurance, 20% for accident and health insurance, and 26% 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 30% market share, and Zurich, with a 14% market share, followed by Mapfre, with a 6% 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 14% 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 life insurance Portuguese market, Fidelidade and Ocidental Vida are the main players with a combined market share in 2016 of 56.4% (based on issued premiums of insurance contracts and deposits of financial products).

In the non-life, Fidelidade is also the main player with a market share of 26%, followed by a new company named Seguradoras Unidas with 15%. Seguradoras Unidas is the result of a merger of several insurance companies, including Tranquilidade and Açoreana.

### **Regulation and supervision**

Insurance companies in Spain are required to report on a quarterly basis to the Dirección 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 (issued premiums and claims costs per line of business) and more extensively on a quarterly basis. Portuguese regulations also incorporate all requirements from the relevant EU directives.

### **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 and volatility adjustment, depending on the underlying portfolio in addition to transitional measures on technical provisions.

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**Table of Contents****Asset liability management**

Asset liability management (ALM) is overseen by Aegon Spain ALM committee (ALCO), which meets each quarter to monitor capital requirements and ensure appropriate matching of assets and liabilities. The ALCO minutes are shared with the Aegon Spain Risk and Capital Committee (RCC).

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 management of the company. This applies for both asset classes (equities, bonds and cash) and across all investments.

For its life insurance business, Aegon Spain's goal is to minimize interest rate risk by matching the duration of assets to the duration of liabilities. Most of Aegon Spain's life insurance liabilities are long-term. The role of the ALCO is therefore to monitor the capital implications of any mismatching.

Scenarios and optimization analyses are conducted for fixed income, equities and real estate asset classes. The result is an asset allocation that represents the desired risk-return profile. Constraints, such as the minimum guaranteed rates to the policyholders, return on equity or required capital, and the minimum desired solvency ratio, are also taken into account. The implementation of Solvency II on January 1, 2016 has had implications for Asset Liability Management, especially in the case of the matching adjustment portfolio.

**Reinsurance ceded**

Aegon Spain has a single Aegon reinsurance management policy. This means that both its joint ventures and own business are treated as a whole, with similar 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, including through profit sharing, while achieving prudential diversification of its insurance risk by limiting the maximum possible losses on risks that exceed retention levels. Household insurance contracts for Aegon Santander follow the same principles. 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. Natural catastrophe reinsurance programs are also in place to provide cover for high impact low frequency events. Aegon Spain generally uses only reinsurance companies that have a Standard & Poor credit rating of A or higher. The principal reinsurance counterparties in the Life and Households programs include Munich Re, RGA Re, SCOR, Partner Re, Gen Re, R+V, Nacional de Reaseguros and Mapfre Re.

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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	Amounts in USD millions			Amounts in EUR millions		
	2016	2015	%	2016	2015	%
<b>Net underlying earnings</b>	(7)	(4)	(79%)	(6)	(3)	(80%)
Tax on underlying earnings	30	27	14%	27	24	15%
<b>Underlying earnings before tax by business / country</b>						
High net worth businesses	61	45	37%	55	40	39%
Aegon Insights <sup>1)</sup>	1	5	(86%)	1	5	(88%)
Strategic partnerships	(39)	(27)	(42%)	(35)	(25)	(41%)
<b>Underlying earnings before tax</b>	<b>23</b>	<b>23</b>	<b>3%</b>	<b>21</b>	<b>20</b>	<b>3%</b>
Fair value items	(10)	7	-	(9)	7	-
Gains / (losses) on investments	9	7	29%	8	7	29%
Net impairments	(1)	-	-	(1)	-	-
Other income / (charges)	(6)	(68)	91%	(5)	(61)	91%
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>16</b>	<b>(31)</b>	<b>-</b>	<b>14</b>	<b>(27)</b>	<b>-</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	2	3	(38%)	2	3	(37%)
Income tax	(30)	(3)	-	(27)	(3)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(2)	(3)	38%	(2)	(3)	37%
<b>Net income</b>	<b>(14)</b>	<b>(33)</b>	<b>58%</b>	<b>(13)</b>	<b>(30)</b>	<b>58%</b>
Life insurance gross premiums	1,240	1,902	(35%)	1,121	1,713	(35%)
Accident and health insurance premiums	115	117	(2%)	104	105	(1%)
<b>Total gross premiums</b>	<b>1,355</b>	<b>2,019</b>	<b>(33%)</b>	<b>1,225</b>	<b>1,819</b>	<b>(33%)</b>
Investment income	257	216	19%	232	194	19%
Fees and commission income	67	69	(3%)	61	62	(3%)

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<b>Total revenues</b>	<b>1,680</b>	<b>2,304</b>	<b>(27%)</b>	<b>1,517</b>	<b>2,076</b>	<b>(27%)</b>
Commissions and expenses	257	268	(4%)	232	242	(4%)
of which operating expenses	161	143	13%	146	129	13%

<sup>1</sup> Formerly known as Aegon Direct & Affinity Marketing Services .

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New life sales	Amounts in USD millions			Amounts in EUR millions		
High net worth businesses	88	151	(42%)	79	136	(42%)
Aegon Insights	-	1	(64%)	-	1	(64%)
Strategic partnerships	54	41	31%	49	37	32%
<b>Total recurring plus 1/10 single</b>	<b>142</b>	<b>193</b>	<b>(26%)</b>	<b>128</b>	<b>173</b>	<b>(26%)</b>

Gross deposits (on and off balance)	Amounts in USD millions			Amounts in EUR millions		
Strategic partnerships - China	7	5	43%	6	4	43%
Strategic partnerships - Japan	330	448	(26%)	298	404	(26%)
<b>Total gross deposits</b>	<b>337</b>	<b>453</b>	<b>(26%)</b>	<b>304</b>	<b>408</b>	<b>(25%)</b>

	Amounts in USD millions			Amounts in EUR millions		
New premium production accident and health insurance	19	31	(40%)	17	28	(40%)

**Exchange rates**

	Weighted average rate	
Per 1 EUR	<b>2016</b>	2015
US dollar	1.1069	1.1100
Chinese Yuan Renminbi	7.3364	6.9598

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Net loss in 2016 amounted to USD 14 million, which was mainly driven by the increase in ownership from 26% to 49% in Aegon's strategic partnership in India compared with 2015, hedging losses in the variable annuity business in Japan, and relatively high profits for tax purposes and limited tax benefits on losses. Underlying earnings before tax remained stable in 2016 compared with 2015 mainly as the result of higher underlying earnings before tax from the High Net Worth business offset by increased ownership in India. Gross deposits decreased to USD 337 million in 2016 compared with USD 453 million in 2015 primarily due to a pricing change on variable annuities in Japan to maintain profitability of new sales. New life sales for 2016 of USD 142 million mainly related to universal life products sold out of Hong Kong and Singapore.

**Net income**

Net loss in 2016 amounted to USD 14 million. Net losses improved from a loss of USD 33 million in 2015 mainly due to the non-recurrence of one-time charges in 2015 of USD 68 million primarily the result of a more detailed approach to modeled reinsurance premiums. Fair value losses increased compared with 2015 due to hedging as a result of the variable annuity business in Japan. The non-recurrence of charges and fair value losses were partially offset by higher income tax compared with 2015 due to the strong performance of Asia's high net worth business out of Hong Kong and Singapore and limited tax benefits on losses in Strategic partnerships.

**Underlying earnings before tax**

In Asia, underlying earnings before tax remained stable at USD 23 million in 2016 compared with 2015.

Underlying earnings before tax from the high net worth businesses in Hong Kong and Singapore increased to USD 61 million in 2016, compared with USD 45 million in 2015. This increase was mainly the result of favorable mortality experience compared with 2015.

Underlying earnings before tax in Aegon Insights decreased to USD 1 million in 2016 compared with USD 5 million in 2015 due to lower production in Indonesia as a result of rationalizing sales campaigns and unfavorable currency movements.

Losses from Strategic partnerships increased to USD 39 million in 2016 compared with USD 27 million in 2015 mainly a result of the increase in ownership from 26% to 49% in India, which is currently loss-making.

**Commissions and expenses**

Commissions and expenses decreased by 4% in 2016 compared with 2015 to USD 257 million driven by lower production levels. Operating expenses increased by 13% in 2016 compared with 2015 to USD 161 million. The increase in operating expenses was mainly driven by the investment made to support future growth, together with the increase in Aegon's stake in its strategic partnership in India from 26% to 49%. On a comparable basis, operating expenses increased by 5% compared with 2015.

**Production**

New life sales decreased by 26% in 2016 to USD 142 million compared with 2015.

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In the high net worth businesses in Hong Kong and Singapore, new life sales were down 42% to USD 88 million in 2016 compared with USD 151 million in 2015. This decrease was mainly the result of lower sales of universal life products as Aegon adhered to its strict pricing policy in the low interest rate environment.

New life sales in Strategic partnerships were up 31% to USD 54 million in 2016 compared with 2015 due to a strong increase from sales in China mainly driven by the continued success of the whole life critical illness product and successful launch of a universal life product in the bank channel. The increase in China in 2016 compared with 2015 was partly offset by the strategic decision to exit the agency distribution channel in India in order to move to a digital distribution model.

Gross deposits in Asia declined to USD 337 million in 2016 compared with USD 453 million in 2015. This was the result of a pricing change on the Japanese Yen-denominated variable annuity in order to maintain profitability of new sales.

New premium production in Asia's accident & health declined 40% in 2016 compared with 2015 to USD 19 million, driven by the rationalization of unprofitable sales campaigns in Aegon Insights, especially in Indonesia.

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	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
<b>Net underlying earnings</b>	<b>(4)</b>	<b>(34)</b>	<b>89%</b>	<b>(3)</b>	<b>(26)</b>	<b>87%</b>
Tax on underlying earnings	27	12	130%	24	9	176%
<b>Underlying earnings before tax by business / country</b>						
High net worth businesses	45	17	170%	40	13	-
Aegon Insights <sup>1)</sup>	5	(2)	-	5	(1)	-
Strategic partnerships	(27)	(38)	27%	(25)	(29)	15%
<b>Underlying earnings before tax</b>	<b>23</b>	<b>(23)</b>	<b>-</b>	<b>20</b>	<b>(17)</b>	<b>-</b>
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	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(31)</b>	<b>(9)</b>	<b>-</b>	<b>(27)</b>	<b>(7)</b>	<b>-</b>
<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	-
<b>Net income</b>	<b>(33)</b>	<b>(21)</b>	<b>(57%)</b>	<b>(30)</b>	<b>(16)</b>	<b>(89%)</b>
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%
<b>Total gross premiums</b>	<b>2,019</b>	<b>1,594</b>	<b>27%</b>	<b>1,819</b>	<b>1,199</b>	<b>52%</b>
Investment income	216	164	31%	194	124	57%
Fees and commission income	69	70	(1%)	62	53	18%

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<b>Total revenues</b>	<b>2,304</b>	<b>1,829</b>	<b>26%</b>	<b>2,076</b>	<b>1,376</b>	<b>51%</b>
Commissions and expenses	268	256	5%	242	192	26%
of which operating expenses	143	146	(2%)	129	110	17%

<sup>1</sup> Formerly known as Aegon Direct & Affinity Marketing Services .



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New life sales	Amounts in USD millions			Amounts in EUR millions		
High net worth businesses	151	123	23%	136	93	47%
Aegon Insights	1	4	(86%)	1	3	(83%)
Strategic partnerships	41	24	68%	37	18	101%
<b>Total recurring plus 1/10 single</b>	<b>193</b>	<b>152</b>	<b>27%</b>	<b>173</b>	<b>114</b>	<b>52%</b>

Gross deposits (on and off balance)	Amounts in USD millions			Amounts in EUR millions		
Strategic partnerships - China	5	4	38%	4	3	65%
Strategic partnerships - Japan	448	695	(36%)	404	523	(23%)
<b>Total gross deposits</b>	<b>453</b>	<b>699</b>	<b>(35%)</b>	<b>408</b>	<b>526</b>	<b>(22%)</b>

	Amounts in USD millions			Amounts in EUR millions		
New premium production accident and health insurance	31	30	3%	28	23	24%

<b>Exchange rates</b>	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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**Table of Contents**Business overview **Results of operations** **Asia 75****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 of USD 23 million compared with a loss of USD 23 million in 2014 were mainly the result of higher underlying earnings before tax from the High Net Worth business. Gross deposits decreased to USD 453 million in 2015 compared with USD 699 million in 2014 primarily due to a pricing change on variable annuities in Japan to maintain profitability of new sales. New life sales of USD 193 million in 2015 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 in 2015 compared with USD 21 million in 2014 mainly due to other charges of USD 68 million, that were primarily the result of a more detailed approach to modeled reinsurance premiums. The charges in 2015 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 to USD 45 million in 2015, compared with USD 17 million in 2014. This increase was mainly the result of higher policy fees.

Underlying earnings before tax in Aegon Insights increased to USD 5 million in 2015 compared with a loss of USD 2 million in 2014 driven by the divestment of its activities in Hong Kong and the restructuring of the Australian business.

Losses from Strategic partnerships improved to USD 27 million in 2015 compared with USD 38 million in 2014 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 Aegon Insights, 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 compared with 2014.

In the high net worth businesses in Hong Kong and Singapore, new life sales were up 23% to USD 151 million in 2015 compared with 2014. This increase was mainly the result of higher sales of universal life products.

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New life sales in Strategic partnerships were up 68% to USD 41 million in 2015 compared with 2014 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 in 2015 compared with USD 699 million in 2014. This was the result of management actions in Q2 2015 to lower commissions on variable annuities in Japan to maintain profitability of new sales.

New premium production in Asia's accident & health and general businesses remained stable in 2015 compared with 2014 at USD 31 million, driven by continued strong performance of fee-based health sales in Aegon Insights.

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Aegon Asia operates through three major joint ventures in India, Japan and the People's Republic of China (hereafter referred to as "China"), in addition to several wholly-owned subsidiaries, including Aegon's businesses in Hong Kong and Singapore that serve the high-net worth segment.

**Organizational structure**

Aegon's main operating companies in Asia (including Aegon's ownership percentages) are:  
 Aegon THTF Life Insurance Co. Ltd. (50%);  
 Aegon Life Insurance Co. Ltd. (49%);  
 Aegon Sony Life Insurance Co. Ltd. (50%);  
 SA Reinsurance Ltd. (50%);  
 Transamerica Life (Bermuda) Ltd. (TLB) (wholly-owned); and  
 Aegon Insights (various wholly-owned legal entities).

**Joint ventures**

Aegon operates in China through a joint venture with Tsinghua Tongfang Co. Ltd (THTF). The name of the joint venture is Aegon THTF Life Insurance Co. Ltd. (Aegon THTF). Aegon THTF is licensed to sell both life insurance and accident and health products in China. The Company has expanded its network of offices and business in China since 2003. Having obtained 12 provincial licenses, its geographic presence provides access to a potential market of over 652 million people, primarily in the coastal provinces of eastern China.

Aegon has been operating in India through its joint venture life insurance company, Aegon Life Insurance Co. Ltd (Aegon Life), since 2008, and its current joint venture partner is Bennett, Coleman & Co. Ltd. (BCCL). The joint venture today has a distribution network across 45 cities and 19 states in India.

Since 2009, Aegon has been operating in Japan through a joint venture with Sony Life, one of Japan's leading insurance companies, named Aegon Sony Life Insurance Co., Ltd. (Aegon Sony Life). The primary focus of Aegon Sony Life is annuity sales in Japan. Aegon and Sony Life also jointly established a reinsurance company, SA Reinsurance Ltd. (SARe), to provide Aegon Sony Life with greater flexibility in the pricing and design of its annuity products. Launched in 2010 and based in Bermuda, SARe manages the guaranteed benefit risks of Aegon Sony Life's products.

**Wholly-owned subsidiaries**

Transamerica Life Bermuda and its predecessors have been serving customers in Asia for over 80 years. TLB today primarily serves the high-net-worth market in Asia through its branches in Hong Kong and Singapore.

Aegon Insights is a marketing and distribution services business in the Asia-Pacific region. This business was rebranded as Aegon Insights on November 8, 2016, having previously been known as Aegon Direct and Affinity

Marketing Services or ADAMS. Aegon Insights first established operations in Australia in 1998, and currently maintains active operations in Japan, Thailand, Indonesia and China.

### **Overview of sales and distribution**

In China, Aegon THTF has a multi-channel distribution strategy. Current distribution channels include agency, brokerage, banks, direct marketing, group and e-sales.

In India, Aegon Life restructured its distribution strategy in August 2016 in order to focus on selling protection and unbundled savings products through a direct-to-customer distribution model. This model includes an e-sales channel, a direct sales force, and third party distribution (for instance aggregators and e-commerce partners) to complement and assist the e-sales channel.

Aegon Sony Life in Japan has two distribution channels: the Sony Life Planner channel (operated by Sony Life), and the bank distribution channel. By December 2016, Aegon Sony Life had entered into distribution partnerships with 2 mega banks, 25 regional banks and Japan Post Bank, in addition to Sony Life's Life Planner distribution of over 4,700 agents.

TLB distributes its products through relationships with private banks and local and international brokers.

Aegon Insights is a leading specialist in insurance marketing consultancy of protection products across Asia Pacific. It offers data-driven and customer-focused marketing, together with distribution solutions, to business partners across the insurance marketing value chain.

### **Overview of business lines**

#### **High net worth businesses**

TLB's main products consist of USD denominated universal life and USD term plans for the high-net-worth market. Universal life is TLB's key product to meet the needs of high-net-worth individuals for estate planning.

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In addition to the universal life products, term products are offered to high-net-worth customers, with protection at guaranteed level premiums for up to 30 years.

**Aegon Insights**

Aegon Insights primarily works with local insurers to develop marketing and distribution solutions that are tailored to the needs of specific markets and customers. Revenue is primarily generated through reinsurance arrangements and fee income from marketing services and product distribution.

**Strategic partnerships**

In China and India, Aegon provides a broad range of life insurance products including unit-linked, universal life, and traditional life products. Aegon also offers variable annuities in Japan through Aegon Sony Life.

In China, Aegon THTF's agency and broker channels primarily sell whole-life critical illness products, while the agency channel also offers participating endowment products. Regular premium critical illness, participating endowment and single premium universal life are the key products offered in the bancassurance channel. Telemarketers largely sell return of premium products, while the e-sales channel is currently focused on offering protection products. Aegon THTF also offers non-life products (primarily consisting of short-term accident and short-term health products) through all channels. Non-life sales are, however, concentrated in the group channel, where the main products are group medical policies.

In Japan, Aegon Sony Life sells variable annuities in JPY, USD and AUD. These products typically provide a guaranteed minimum death benefit along with either a lifetime withdrawal benefit or a guaranteed minimum accumulation benefit.

Since 2010, SARE has assumed the risk on all minimum guarantees offered on Aegon Sony Life's variable annuity products.

In India, Aegon Life offers term plans, traditional individual participating products, traditional pension participating products, traditional non-participating savings products, and unit-linked plans through e-sales and direct sales force channels.

**Competition****China: Aegon THTF<sup>1</sup>**

As of November 30, 2016, there were 76 life insurance companies in the market, including 48 domestic life companies and 28 foreign life insurers. Based on total premium income, Aegon THTF ranked fifty-fifth among life insurance companies and seventeenth among foreign life companies in China. Aegon THTF's market share among foreign-invested companies was 1.3% in terms of total premium.

**India: Aegon Life<sup>2</sup>**

There were 24 licensed life insurers in India at the end of December 2016. While the state-owned Life Insurance Corporation of India continues to maintain a dominant share of new business premiums (April 2016 to December 2016), private sector companies have shown double-digit growth to garner more than 22% of the individual recurring new business premiums written. Aegon Life India ranked twenty-third in the individual recurring premium market (April 2016 to December 2016).

### **Japan: Aegon Sony Life**

There are eight active companies in Japan's variable annuities market. In 2016, Aegon Sony Life was ranked second in the market behind Dai-ichi Frontier.

### **Hong Kong and Singapore: TLB**

TLB's main competitors in Hong Kong and Singapore are local and global providers for the high-net-worth market, such as HSBC Life, AIA, Manulife Bermuda, and Sun Life Bermuda.

### **Asia: Aegon Insights**

The use of direct marketing in the insurance industry is growing due to economic pressure on traditional distribution channels and changes in customer behavior. For this reason, multinational insurers across the region are increasing their marketing capabilities. There is also an increasing awareness of the effectiveness of data-driven marketing among other marketing service providers that are active in the region.

### **Regulation and supervision**

#### **China: Aegon THTF**

The insurance industry in China is regulated by the China Insurance Regulatory Commission (CIRC). On January 1, 2016, a new solvency regime, China Risk Oriented Solvency System (C-ROSS), was formally implemented. C-ROSS is a risk-based solvency system, similar to that of Solvency II, which adopts a three-pillar solvency framework aimed at improving risk management and capital efficiency. Additional market-oriented reforms were introduced during the year, such as allowing qualified insurers to be listed in a new third board for small to medium size insurers, and strengthening restrictions on insurance asset management. CIRC also focused on improving the livelihood of urban and rural residents by financing qualified commercial insurance companies to offer critical illness products to these residents.

#### **India: Aegon Life**

Indian life insurance companies are regulated by the Insurance Regulatory and Development Authority of India (IRDAI). The IRDAI regulates, promotes and encourages the orderly growth of insurance and reinsurance businesses in India. Established by the government of India, it safeguards the interests of the country's insurance policy holders.

1 Source: CIRC, [www.circ.gov.cn/web/site0/tab5168/info4054427.htm](http://www.circ.gov.cn/web/site0/tab5168/info4054427.htm). Webpage visited February 24, 2017.

2 Source: Life Insurance Council, [www.lifeinscouncil.org/industry%20information/nbp.aspx](http://www.lifeinscouncil.org/industry%20information/nbp.aspx). Webpage visited February 24, 2017.





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The IRDAI is very active in introducing new regulations that focus on protecting policyholders' interests and exploring avenues to support growth in the industry. Steps initiated by the IRDAI during 2016 include: the issuance of e-insurance policy, investment regulation, and guidelines on revised corporate governance circular on Central KYC records registry.

**Japan: Aegon Sony Life**

The Financial Services Agency (FSA) is the government agency that supervises all insurance companies in Japan. New products and major product amendments are filed with, and approved by, the FSA, in addition to general policy provisions, statements of business procedure, and pricing and valuation.

The Insurance Business Act was revised with respect to market conduct rules, emphasizing fiduciary duty of insurance companies, and implemented in May 2016. Two main revisions were: the establishment of basic solicitation rules for providing information to customers, and for obtaining an understanding and confirmation of the customers' intent when purchasing insurance products to prohibit improper conducts by solicitors; and the implementation of an internal control system to ensure proper conduct of business by agents.

**Hong Kong and Singapore: TLB**

TLB is incorporated in Bermuda and regulated by the Bermuda Monetary Authority, the integrated regulator of the financial services sector in Bermuda. TLB's Asia branches are located in Hong Kong and Singapore. The insurance industry in Hong Kong is regulated by the Office of the Commissioner of Insurance (OCI). Changes to the Insurance Companies Ordinance in 2015 provide for the establishment of a new independent insurance authority (IIA). The new IIA will take over the regulation of insurance companies and insurance intermediaries from the three Self-Regulatory Organizations (SROs) through a statutory licensing regime in the next two to three years.

The insurance industry in Singapore is regulated by the Monetary Authority of Singapore (MAS). The MAS is an integrated regulator that oversees all banks, insurers, capital market intermediaries and financial advisors in Singapore.

**Asia: Aegon Insights**

A broad range of regulations apply to Aegon Insights' activities. Depending on the precise nature of the activities undertaken and the form of business entity used in the jurisdictions in which Aegon Insights operates, relevant regulations include: marketing/consultancy business licensing rules, insurance laws, and personal data protection laws. In addition, various regulators also keep oversight of a number of activities undertaken by entities licensed by Aegon Insights. These regulators include the FSA in the Japan, the Office of Insurance Commission in Thailand, the Australian Securities & Investments Commission in Australia, and the Confederation of Insurance Brokers in Hong Kong. Aegon Insights keeps abreast of all changes or proposed changes to regulations governing personal data in all of its markets.

Where appropriate, it also implements industry standard compliance programs, such as Payment Card Industry Compliance in Australia and Privacy Mark in Japan.

## Asia

Solvency II requirements became effective for Aegon Group as of January 1, 2016. Aegon's Asian activities are included in the Aegon Group Solvency II ratio through Deduction & Aggregation. For TLB and Japan, Deduction & Aggregation is applied using available and required capital as per the local capital regime. The regulatory regime of Bermuda and Japan were granted provisional equivalence on December 7, 2015. The other units in Asia (India and China) are included under Deduction & Aggregation based on Solvency II.

### Asset liability management (ALM)

#### China: Aegon THTF

Aegon THTF has a board-level Investment and Risk Committee (IRC), together with an Investment Committee and Risk and Capital Committee at management-level. Regular review of risk and capital requirements is conducted in these committees to monitor asset and liability mismatch risk, investment risk and the solvency position. Based on the payment structure and term of insurance liabilities, Aegon THTF invests in corporate bonds, government bonds, bank deposits, debt projects, or other fixed income assets to match liabilities. Operating and shareholders' equity funds may be invested in mutual funds, stocks, money market funds and bond repurchases in order to enhance investment returns.

#### India: Aegon Life

Aegon Life has a board-level Investment Committee (IC), a board-level Risk Management Committee (RMC), and a management-level Asset & Liability Management Committee (ALCO) that coordinates the Company's strategy on product design and pricing. The IC and RMC meet quarterly, while the ALCO meets monthly. An Enterprise Risk Management report that covers ALM-related issues is presented to the RMC each quarter. Quarterly and annual ALM reports are also prepared for the Indian insurance regulator.

#### Japan: Aegon Sony Life and SARE

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

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

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At TLB, there is a management-level RCC and a management-level IC that reports to the Board. Regular reviews of risk and capital matters are conducted by the RCC, while the IC focuses on the areas of investment performance and compliance, and mismatch risk.

**Asia: Aegon Insights**

Aegon Insights assets are managed by Aegon USA Investment Management, LLC in the United States in a pool of assets backing similar liabilities. ALM is performed as part of asset portfolio management.

**Reinsurance ceded****China: Aegon THTF**

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

**India: Aegon Life**

Reinsurance arrangements are regulated by the IRDAI. Aegon Life primarily reinsures the mortality and morbidity risks of its policies sold with Reinsurance Group of America (RGA). For specific products, reinsurance treaties are entered into with other major reinsurance companies such as Munich Re and Swiss Re.

**Japan: Aegon Sony Life and SARE**

Aegon Sony Life reinsures 100% of its guarantees on variable annuities with SARE.

In April 2014, Aegon Sony Life entered into a Surplus Relief reinsurance contract with RGA Re on a local statutory basis only. Surplus Relief provides relief from acquisition cost recovery risk.

**Hong Kong and Singapore: TLB**

TLB uses third-party mortality reinsurance for its universal life and traditional policies. Mortality reinsurance takes the form of yearly-renewable term excess-of-retention or quota-share arrangements. This is typically arranged through a pool of reinsurers, such as Munich Re and Swiss Re. In October 2016, TLB entered into a reinsurance treaty with Munich Re to provide further protection for the local solvency position in Singapore.

**Asia: Aegon Insights**

Aegon Insights' traditional business model primarily creates value by offshore reinsurance through an Aegon risk carrier, whereby risk-based premium is acquired for the group. Aegon Insights acts as an independent marketing services provider. This enables it to form partnerships with local insurers, particularly in locations where Aegon does not have a local presence. Aegon Insights also increasingly generates fee income from its professional services.

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Amounts in EUR millions	<b>2016</b>	2015	%
<b>Net underlying earnings</b>	<b>99</b>	<b>120</b>	<b>(17%)</b>
Tax on underlying earnings	50	50	(2%)
<b>Underlying earnings before tax by business / country</b>			
Americas	55	66	(16%)
The Netherlands	14	11	28%
United Kingdom	30	32	(7%)
Rest of World	(4)	(4)	(2%)
Strategic partnerships	54	65	(17%)
<b>Underlying earnings before tax</b>	<b>149</b>	<b>170</b>	<b>(12%)</b>
Fair value items	-	-	-
Gains / (losses) on investments	3	3	8%
Net impairments	(5)	-	-
Other income / (charges)	(2)	(1)	(16%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>145</b>	<b>172</b>	<b>(15%)</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	19	19	(3%)
Income tax	(48)	(50)	5%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(19)	(19)	3%
<b>Net income</b>	<b>97</b>	<b>121</b>	<b>(20%)</b>
Management fees	503	504	-
Performance fees	34	48	(29%)
Other	63	61	3%
<b>Total revenues</b>	<b>601</b>	<b>614</b>	<b>(2%)</b>
Commissions and expenses	486	487	-
of which operating expenses	451	444	2%
Cost / income ratio	75.1%	72.3%	

Amounts in EUR millions	<b>2016</b>	2015	%
<b>Gross flows other third-party</b>			
Americas	4,536	2,329	95%
The Netherlands	4,656	4,080	14%
United Kingdom	4,831	7,538	(36%)
Rest of World <sup>1)</sup>	(317)	(389)	19%
Strategic partnerships	32,660	20,165	62%
<b>Total gross flows other third-party</b>	<b>46,366</b>	<b>33,722</b>	<b>37%</b>

**Net flows other third-party**

Americas	499	307	63%
The Netherlands	3,669	2,897	27%
United Kingdom	(865)	3,490	-
Rest of World <sup>1)</sup>	62	(27)	-
Strategic partnerships	(402)	1,568	-
<b>Total net flows other third-party</b>	<b>2,964</b>	<b>8,235</b>	<b>(64%)</b>

<sup>1</sup> Rest of world include intragroup eliminations from internal sub-advised agreements

**Exchange rates**

	<b>Weighted average rate</b>	
	2016	2015
Per 1 EUR		
US dollar	1.1069	1.1100
Pound sterling	0.8187	0.7256
Hungarian forint	310.9128	309.3147
Chinese Yuan Renminbi	7.3364	6.9598

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Net income in 2016 decreased compared with 2015 to EUR 97 million as a result of lower underlying earnings before tax compared with 2015. Lower underlying earnings before tax in 2016 compared with 2015 was mainly the result of lower underlying earnings before tax in 2016 compared with 2015 from Aegon's Chinese asset management joint venture AIFMC due to the normalization of performance fees. Gross flows in other third-party asset management increased by 37% to EUR 46 billion in 2016 compared with 2015, mainly driven by higher gross inflows in the US, the Netherlands and Strategic partnerships.

**Net income**

Net income in 2016 declined 20% compared with 2015 to EUR 97 million. This was mainly driven by lower underlying earnings before tax in 2016 compared with 2015.

**Underlying earnings before tax**

Underlying earnings before tax decreased by 12% in 2016 compared with 2015 to EUR 149 million. This decline was mainly driven by lower underlying earnings before tax in 2016 compared with 2015 from Aegon's Chinese asset management joint venture AIFMC due to the normalization of performance fees.

Americas underlying earnings before tax decreased to EUR 55 million in 2016, compared with EUR 66 million in 2015, as higher transactional fee income was more than offset by lower management fee income in 2016 compared with 2015, and increased employee and project-related expenses.

Underlying earnings before tax from the Netherlands in 2016 increased EUR 3 million to EUR 14 million compared with 2015, mainly driven by higher management fee income which were only partly offset by higher expenses in 2016 compared with 2015.

Underlying earnings before tax from the United Kingdom amounted to EUR 30 million in 2016, a decrease from the EUR 32 million level in 2015. Lower expenses in 2016 compared with 2015 were more than offset by adverse currency movements and lower fee income mainly resulting from the sale of the majority of the UK annuity book.

Rest of World underlying earnings before tax in 2016 remained stable compared with 2015 at a loss of EUR 4 million.

Underlying earnings before tax from Strategic partnerships decreased with EUR 11 million compared with 2015 to EUR 54 million in 2016. This was the result of lower performance fee income at AIFMC compared with 2015 and adverse currency movements, partly offset by higher underlying earnings before tax in 2016 compared with 2015 related to the inclusion of La Banque Postale Asset Management.

**Commissions and expenses**

Operating expenses increased by 2% in 2016 compared with 2015 to EUR 451 million. This increase was mainly the result of higher employee related expenses in 2016 compared with 2015 due to increased headcount to support growth strategy and the inclusion of costs related to the partnership with La Banque Postale Asset Management, which was only partly offset by currency movements. As a result of higher expenses and lower net income in 2016 compared with 2015, the cost/income ratio in 2016 increased by 3 percentage points to 75% compared with 2015. Annualized

operating expenses as a percentage of average assets under management remained in 2016 stable compared with 2015 at 13 basis points.

### **Production**

Gross inflows in other third-party increased by 37% in 2016 to EUR 46.4 billion compared with 2015. This was mainly the result of higher gross flows in AIFMC in 2016 compared with 2015, which were mainly driven by higher recognized gross inflows, the acquisition of La Banque Postale Asset Management, and higher gross flows in the US and the Netherlands.

Net other third-party inflows in 2016 decreased compared with 2015 to EUR 3.0 billion, as higher net flows in 2016 compared with 2015 in mainly the Netherlands were more than offset by net outflows in the United Kingdom and AIFCM.

### **Assets under management**

Assets under management decreased by EUR 14 billion in 2016 to EUR 332 billion compared with the start of 2016. Favorable market movements and net inflows in other third-party were more than offset by outflows in affiliates, due to a contract loss in the US, outflows in the general account, primarily resulting from the divestment of the majority of the annuity book in the United Kingdom, and unfavorable currency movements.



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Amounts in EUR millions	2015	2014	%
<b>Net underlying earnings</b>	<b>120</b>	<b>80</b>	<b>51%</b>
Tax on underlying earnings	50	36	41%
<b>Underlying earnings before tax by business / country</b>			
Americas	66	51	30%
The Netherlands	11	18	(40%)
United Kingdom	32	27	18%
Rest of World	(4)	(6)	37%
Strategic partnerships	65	25	156%
<b>Underlying earnings before tax</b>	<b>170</b>	<b>115</b>	<b>48%</b>
Fair value items	-	-	-
Gains / (losses) on investments	3	1	-
Net impairments	-	-	-
Other income / (charges)	(1)	(1)	(38%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>172</b>	<b>115</b>	<b>49%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	19	8	145%
Income tax	(50)	(36)	(41%)
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(19)	(8)	(145%)
<b>Net income</b>	<b>121</b>	<b>79</b>	<b>53%</b>
Management fees	504	385	31%
Performance fees	48	12	-
Other	61	54	14%
<b>Total revenues</b>	<b>614</b>	<b>450</b>	<b>36%</b>
Commissions and expenses	487	368	32%
of which operating expenses	444	339	31%
Cost / income ratio	72.3%	75.3%	
Amounts in EUR millions	2015	2014	%
<b>Gross flows other third-party</b>			
Americas	2,329	3,123	(25%)
The Netherlands	4,080	2,542	60%
United Kingdom	7,538	5,388	40%
Rest of World <sup>1)</sup>	(389)	507	-
Strategic partnerships	20,165	7,780	159%
<b>Total gross flows other third-party</b>	<b>33,722</b>	<b>19,340</b>	<b>74%</b>

**Net flows other third-party**

Americas	307	402	(24%)
The Netherlands	2,897	1,731	67%
United Kingdom	3,490	(1,615)	-
Rest of World <sup>1)</sup>	(27)	393	-
Strategic partnerships	1,568	3,304	(53%)
<b>Total net flows other third-party</b>	<b>8,235</b>	<b>4,215</b>	<b>95%</b>

<sup>1</sup> Rest of world include intragroup eliminations from internal sub-advised agreements

**Exchange rates**

Weighted average rate

<b>Per 1 EUR</b>	2015	2014
US dollar	1.1100	1.3288
Canadian dollar	1.4173	1.4667
Pound sterling	0.7256	0.8061
Hungarian forint	309.3147	308.3758
Chinese Yuan Renminbi	6.9598	8.1902

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Net income in 2015 increased to EUR 121 million compared with 2014 as a result of higher underlying earnings before tax. Higher underlying earnings before tax in 2015 compared with 2014 were mainly the result of growth of third-party asset balances, favorable currency movements and one-off performance fees. Gross flows in third-party asset management increased by 74% to EUR 34 billion in 2015 compared with 2014 driven by record-high inflows.

**Net income**

Net income in 2015 increased 53% to EUR 121 million compared with 2014. This was mainly driven by higher underlying earnings before tax in 2015 compared with 2014.

**Underlying earnings before tax**

Underlying earnings before tax increased by 48% in 2015 compared with 2014 to EUR 170 million, as higher underlying earnings before tax in the Americas, the United Kingdom and Strategic partnerships were only partly offset by lower underlying earnings before tax in the Netherlands.

Underlying earnings before tax from the Americas increased by 30% to EUR 66 million in 2015 compared with 2014. This increase was primarily driven by favorable currency movements and lower employee expenses, partly offset by project-related expenses.

Underlying earnings before tax from the Netherlands decreased to EUR 11 million in 2015, compared with EUR 18 million in 2014, as higher management fee income and positive Dutch Mortgage Fund flows were offset by higher employee and project-related expenses.

Underlying earnings before tax from the United Kingdom increased to EUR 32 million in 2015 from EUR 27 million in 2014. This increase was a result of absolute return fund sales and favorable currency movements, partly offset by increased expenses due to growth of the business.

Underlying earnings before tax from Rest of World improved to a loss of EUR 4 million in 2015 compared with a loss of EUR 6 million in 2014, as higher management and performance fee income in Central & Eastern Europe were more than offset by expenses at the Holding.

Underlying earnings before tax from Strategic partnerships increased to EUR 65 million in 2015 compared with EUR 25 million in 2014. This was mainly the result of the first time inclusion of underlying earnings before tax from Aegon's partnership with La Banque Postale Asset Management and higher performance and management fees in AIFMC, of which performance fees totaled EUR 35 million.

**Commissions and expenses**

Commissions and expenses increased by 32% in 2015 compared with 2014 to EUR 487 million. Operating expenses increased by 31% in 2015 compared with 2014 to EUR 444 million. The increase in operating expenses in 2015 compared with 2014 was mainly the result of growth of the business, currency movements and project-related expenses.

**Production**

Gross third-party flows increased by 74% to EUR 33.7 billion in 2015 compared with 2014. This increase was due to higher flows in the Dutch Mortgage Fund, higher absolute return fund sales in the United Kingdom, increased flows in Chinese money market, equity and bond funds and the inclusion of Aegon's share in La Banque Postale Asset Management's flows.

Third-party net flows were up 95% in 2015 compared with 2014 to EUR 8.2 billion, as higher net flows in the Netherlands and the United Kingdom more than offset lower net flows in 2015 compared with 2014 from money market funds in China.

### **Assets under management**

Assets under management increased by EUR 43 billion in 2015 to EUR 346 billion compared with the start of 2015. This was primarily driven by third-party net flows, the inclusion of Aegon's share in La Banque Postale Asset Management and favorable currency movements, partially offset by outflows in the general account and in the affiliate business.

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### **Overview of Aegon Asset Management**

Aegon Asset Management is an active investment manager that uses its investment management expertise to help people achieve a lifetime of financial security.

### **Organizational structure**

Aegon Asset Management is a provider of investment management expertise to institutional and private investors around the world. It has offices in the United States, the Netherlands, the United Kingdom, Hong Kong, Hungary and Spain. It operates under three main brands:

Aegon Asset Management specializes in providing clients with a range of high-quality investment solutions across asset classes, including fixed income, equities, real estate, absolute return, liability-driven, and multi-asset and balance sheet solutions. A long and successful history of partnership with Aegon's insurance businesses has enabled Aegon Asset Management to establish experienced investment teams, a solid asset base and proven long-term records;

Kames Capital is a UK-based asset management company that provides fixed income, equities, real estate and multi-asset solutions to both UK and international clients; and

TKP Investments is a Netherlands-based fiduciary manager that is recognized for its manager selection and tailored advice on balance sheet solutions for the pension market.

In addition, Aegon Asset Management operates two key Strategic partnerships:

In China, Aegon Asset Management owns 49% of Aegon Industrial Fund Management Company (AIFMC), a Shanghai-based asset manager that offers mutual funds, segregated accounts and advisory services; and

In France, Aegon Asset Management owns 25% of La Banque Postale Asset Management. La Banque Postale Asset Management offers a comprehensive range of investment strategies to French institutional clients, and to private investors through La Banque Postale group's retail banking network.

Aegon Asset Management's main operating entities are Aegon USA Investment Management LLC, Aegon USA Realty Advisors LLC, Aegon Investment Management B.V. (the Netherlands), TKP Investments B.V. (the Netherlands), Kames Capital plc (United Kingdom) and Aegon Hungary Asset Management Company Zrt. Depending on regulatory requirements and the local business environment, boards of local operating entities may include oversight through independent non-executive directors.

Strategic direction and global oversight of business performance is executed by the Board of Aegon Asset Management, which has both global and local roles and responsibilities. The Board (AAM) is supported by the Governance Risk & Compliance Committee (AAM) and its Human Resources Committee (AAM), along with the Global Product Committee and the Global Steering Committee, which focuses on strategy execution. Members of the Board (AAM) are appointed by Aegon N.V. The Risk Advisory Committee and Remuneration Committee support Aegon's oversight of AAM.

### **Overview of sales and distribution channels**

Aegon Asset Management uses a variety of sales and distribution channels in the Americas, Europe and Asia. These include among others: affiliated companies, direct to institutional clients, independent investment advisors, investment consultants, joint ventures and third-party investment platforms.

### Overview of business lines

Aegon Asset Management has three distinct business lines.

General account business consists of funds held on the balance sheet of Aegon insurance companies to meet policyholder liabilities typically when the insurer has given the policyholder a guarantee. These assets are managed to match the insurers liabilities. As a rule, general account assets are managed in a closed architecture structure, and the main asset classes are fixed income and mortgage loans. Aegon Asset Management also manages Aegon's general account derivatives book.

The majority of third-party business sourced through affiliates consists of funds sold by Aegon insurers through which the policyholder's return is determined by the investment return of the fund. These funds have various legal structures, and are usually managed against a benchmark or peer group target. The main asset classes include fixed income, equities, real estate, mortgage loans and alternatives. In the United States and the United Kingdom, a significant element of Affiliate Sales is conducted on an open architecture basis, where Aegon Asset Management competes with external fund managers.

For third-party business sourced externally, Aegon Asset Management distributes its investment strategies directly to its clients. The wholesale businesses typically sell collective investment vehicles (mutual funds) to customers through wholesale distributors and independent intermediaries. The main asset classes are fixed income and equities, and the funds are usually managed against a benchmark or peer group target.

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The institutional businesses typically sell tailored services to large corporations or pension funds. Aegon Asset Management employs a full range of asset classes, and manages the funds against objectives, targets and risk profiles agreed with clients. Aegon Asset Management offers both absolute and relative return products.

**Competition in main locations**

Aegon Asset Management competes with other asset management companies to acquire business from open-architecture Aegon insurance units and third parties.

In the United States, Aegon Asset Management focuses on offering investors fixed income, balance sheet solutions and real estate-related strategies. It works directly with pension funds, endowments and foundations as well as investment consultants within the institutional market. In the wholesale market, Aegon Asset Management works as a sub-advisor with its insurance company affiliates and other partners in order to offer competitive and relevant strategies for its client base. It also works with consultants and other partners to offer products to third-party institutions. Primary competitors in the United States include AllianceBernstein, BlackRock, Invesco, JP Morgan, Legg Mason, Principal, PIMCO and Prudential.

In the Netherlands, Aegon Asset Management provides a wide range of investment strategies and solutions to institutional and wholesale clients, and through its affiliated insurance company to retail clients. In the third-party institutional market, it competes with domestic and global asset managers as well as with fiduciary and balance sheet managers. Competition continues to be strong in the institutional market due to both the ongoing consolidation of pension funds and the growing service requirements of pension fund clients. Primary competitors in the Netherlands include BlackRock, JP Morgan, Nationale Nederlandse Investment Partners and Robeco.

In the United Kingdom, Aegon Asset Management focuses on offering investors fixed income, equities, real estate, multi-asset, absolute return and ethical investments. It serves institutional clients and their advisors, and is active in the wholesale market. In the UK, primary competitors include Aberdeen Asset Management, Ashmore, BlackRock, Henderson Global Investors and Standard Life Investments.

In mainland China, Aegon Industrial Fund Management Company focuses on Chinese equity, fixed income, and money market strategies. It competes against a wide range of locally-based asset managers including Alibaba's Yuebao fund China Universal Asset Management, E Fund Management, Fullgoal Fund Management, and Yinhuafund Management.

In France, La Banque Postale Asset Management competes for private investors through La Banque Postale's retail banking network, with a focus on new multi-asset strategies. In the institutional market, it also offers strategies from Aegon Asset Management businesses in order to compete with large local asset managers and specialized international competitors. In France, primary competitors include Amundi Asset Management, AXA Investment Management, BNP Paribas Investment Partners and Natixis Global Asset Management.

**Regulation and supervision**

Regulation of asset management companies in general differs to that of insurers. Aegon Asset Management's global holding company, Aegon Asset Management Holding B.V., is regulated by De Nederlandsche Bank (The Dutch Central Bank (DNB)) as a financial holding company according to the Dutch Financial Supervision Act. Local

operating entities are regulated by their local regulators, most notably the Dutch Authority for the Financial Markets (AFM), conduct of business supervision) and DNB (prudential supervision) for Dutch-based entities, the Financial Conduct Authority (FCA) for UK-based entities and the Securities & Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) for the US-based entity. From a regulatory perspective, the asset management activities of Aegon Asset Management in the United States do not fall under the responsibility of Aegon Asset Management Holding B.V as these entities are subsidiaries of Transamerica Corporation.

## **Solvency II**

Solvency II requirements became effective for Aegon Group as of January 1, 2016. The EU-domiciled asset management activities are accounted for in the Group Solvency II calculation using the requirements set by the Capital Requirements Directives (CRD). Non EU-domiciled activities are accounted for using local capital requirements.



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#### **[Risk management](#)**

##### **General**

As an insurance group, Aegon manages risk for the benefit of its customers and other stakeholders. As a result, the Company is exposed to a range of underwriting, operational and financial risks. Aegon's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's strategy.

##### **Definition and tolerances**

For Aegon, risk management involves:

- Understanding risks that the Company faces;
- Maintaining a company-wide framework through which the risk-return trade-off associated with these risks can be assessed;
- Maintaining risk tolerances and supporting policies to limit exposure to a particular risk or combination of risks; and
- Monitoring risk exposures and actively maintaining oversight of the Company's overall risk and solvency positions.

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

##### **Objectives of risk management**

Aegon's risk strategy provides direction for the targeted Aegon risk profile while supporting Aegon's business strategy. The targeted risk profile is determined by customer needs, Aegon's competence to manage the risk, the preference of Aegon for the risk, and whether there is sufficient capacity to take the risk. Key inputs for Aegon's risk preferences include expected returns, alignment between Aegon, counterparty and customer interests, the existing risk exposures and other risk characteristics such as diversification, the severity of the risk in an extreme market event and the speed at which risk can materialize in Aegon's capital position, liquidity position and IFRS net income.

In addition to the targeted risk profile, risk tolerances and limits are established to ensure that Aegon maintains, at all times, a solvency and liquidity position such that no plausible scenario would cause the Company to default on its obligations to policyholders. To accomplish this, Aegon has established a number of risk criteria and tolerances as part of its risk strategy:

- Financial strength: ensure Aegon meets long-term obligations to policyholders, thereby enabling Aegon to compete in key markets as a financially strong global insurer;
- Continuity: ensure that Aegon meets policyholder obligations, even under extreme event scenarios;
- Culture: encourage strong risk awareness by stressing the Company's low tolerance for operational risk. This helps to improve operational excellence and ensures that the Company is fair in its treatment of customers and other stakeholders; and

Risk balance: manage the concentration of risk and encourage risk diversification within Aegon.

### **Aegon's risk governance framework**

Aegon has a strong culture of risk management, based on clear, well-defined risk governance; the goals of which are to:

Minimize ambiguity by clearly defining roles and responsibilities and risk reporting procedures for decision makers;

Institute a proper system of checks and balances, and ensure that senior management is aware of material risk exposures at all times;

Manage risk in line with the targeted risk profile, including the avoidance of an over-concentration of risk in particular areas;

Facilitate diversification by enabling management to identify diversification benefits from apparent risk-return trade-offs; and

Reassure external stakeholders that Aegon has appropriate risk management structures and controls in place.

### **Governance structure**

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

The Supervisory Board and the Supervisory Board Risk Committee (SBRC);

The Executive Board and the Management Board;

The Group Risk & Capital Committee (GRCC) and its sub-committees; and

The Regional Risk & Capital Committees.

The SBRC is responsible for overseeing Aegon's Enterprise Risk Management (ERM) framework, including risk governance and measures taken to ensure risk management is properly integrated into the Company's broader strategy. The SBRC oversees the Company's risk exposure as it relates to capital, earnings and compliance with Group Risk policies. It is the responsibility of the Executive Board and the Group's Chief Risk Officer (CRO) to inform the Supervisory Board of any risk that directly threatens the solvency, liquidity or operations of the Company. Details of members of the SBRC can be found on pages 107, 111 and 112 of this Annual Report.

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Aegon's Executive Board has overall responsibility for risk management. The Executive Board adopts the risk strategy, risk governance, risk tolerance and material changes in risk methodology and risk policies. The Group's CRO has a standing invitation to attend Executive Board meetings and a direct reporting line to the Supervisory Board to discuss ERM and related matters, and is a member of the Management Board.

The Management Board oversees a broad range of strategic and operational issues. While the Executive Board remains Aegon's statutory executive body, the Management Board provides vital support and expertise in safeguarding Aegon's strategic goals. The Management Board discusses and sponsors ERM, in particular the risk strategy, risk governance, risk tolerance and the introduction of new risk policies.

The Executive Board and Management Board are supported by the GRCC. The GRCC is Aegon's most senior risk committee. It is responsible for managing Aegon's balance sheet at the global level, and is in charge of risk oversight, risk monitoring and risk management related decisions on behalf of the Executive Board in line with its charter. The GRCC ensures risk-taking is within Aegon's risk tolerances; that capital position is adequate to support financial strength, credit rating objectives and regulatory requirements, and that capital is properly allocated. The GRCC informs the Executive Board about any identified (near) breaches of overall tolerance levels, as well as any potential threats to the Company's solvency, liquidity or operations.

The GRCC has three sub-committees: the ERM framework, Accounting and Actuarial Committee (ERMAAC), the Non-Financial Risk Committee (NFRC) and the Model Validation Committee (MVC).

The purpose of the ERMAAC is to assist the GRCC, Executive Board and Management Board with framework setting and maintenance across all group-level balance sheet bases, including policies, standards, guidelines, methodologies and assumptions.

The ERMAAC can seek advice on significant framework development work from temporary working groups comprised of subject-matter experts from across the Company's businesses. These working groups are established by the ERMAAC, including their membership, scope of work and deliverables.

The Non-Financial Risk Committee (NFRC) exchanges information on non-financial risk matters and prepares decision making for the GRCC or relevant Board, in line with applicable governance requirements. The NFRC receives and reviews the regular reports from the regions on non-financial risk exposure, including issues related to regulatory compliance and conduct.

The Model Validation Committee (MVC) is responsible for approving all model validation reports across Aegon. This is an independent committee that reports into the GRCC and Executive Board to provide information on model integrity and recommendations for further strengthening of models.

Each of Aegon's regions has a Risk & Capital Committee (RCC). The responsibilities and prerogatives of the RCCs are aligned with the GRCC and further set out in their respective charters, which are tailored to local circumstances.

In addition to the four basic layers described above, Aegon has an established group-wide risk function. It is the mission of the Risk Management function to ensure the continuity of the Company through safeguarding the value of existing business, protecting Aegon's balance sheet and reputation, and through supporting the creation of sustainable value for all stakeholders.

In general, the objective of the Risk Management function is to support the Executive Board, Management Board, Supervisory Board, and regional and business unit boards in ensuring that the Company reviews, assesses, understands and manages its risk profile. Through oversight, the Risk Management function ensures the group-wide risk profile is managed in line with Aegon's risk tolerances, and stakeholder expectations are managed under both normal business conditions and extreme conditions caused by unforeseen events.

The following roles are important in order to realize the objective of the function:

- Advising on risk-related matters including risk tolerance, risk governance, risk methodology and risk policies;
- Supporting and facilitating the development, incorporation, maintenance and embedding of the ERM framework and sound practices; and
- Monitoring and challenging the implementation and effectiveness of ERM practices.

In the context of these roles, the following responsibilities can be distinguished:

**Advising on risk-related matters:**

- Bringing businesses together to facilitate information exchange, sharing best practices and working together on relevant case studies and external standards in order to develop, adopt and maintain relevant standards of practice throughout Aegon; and
- Optimizing the use of capital and growth within risk/return and consumer conduct criteria.

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Developing and maintaining the global ERM framework for identifying, measuring and managing all material risks the Company is exposed to as defined in Aegon's risk universe and protecting Aegon's reputation;

Developing and maintaining Aegon's risk methodology as described in the Aegon Market Consistent Reporting Manual (AMCRM);

Supporting the businesses with implementing the ERM framework, risk methodology and standards of practice where needed;

Supporting the Management Board in ensuring the effective operation of the ERM framework and related processes, providing subject matter expertise to businesses as appropriate and facilitating information exchange on good risk practices;

Identifying and analyzing emerging risks, being input for ongoing risk strategy development and to ensure that Aegon's risk universe remains up to date;

Designing the Solvency II PIM<sup>1</sup>, including the validation thereof. Model validation ensures independent review of methodology, assumptions, data, testing, production, reporting and use of the Solvency II PIM;

Analyzing Solvency II PIM outputs and performance and reporting results to the Boards and relevant (Supervisory) Committees;

Providing subject matter expertise from the Centers of Excellence of the global Risk Management function to business areas through review of key initiatives, transactions, programs, projects, assumptions, methodologies and results across all important paradigms;

Providing assurance on the integrity of models and cash flows through model validations and maintenance of model validation policies and standards; and

Promoting a strong risk management culture across Aegon, including review of performance targets and remuneration in line with the Aegon Group Global Remuneration Framework.

**Challenging and monitoring:**

Monitoring the ERM framework and overseeing compliance with group-wide risk governance requirements, risk strategy and risk tolerances, risk policies and risk methodology, which are applicable to all businesses for which Aegon has operational control;

Ensuring appropriate risk management information is prepared for use by the GRCC, the Management Board, the Executive Board and Supervisory Board;

Overseeing material risk, balance sheet and business decisions taken throughout Aegon in line with established risk governance arrangements;

Monitoring and reporting on risk exposures and advising the Boards and (Supervisory) Committees on risk management related matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;

Monitoring that the internal model is and remains appropriate to the Company's risk profile and informing the Management Board and the Supervisory Board about the on-going performance, suggesting improvements;

Monitoring risk exposures and risk policy compliance, including review of the Own Risk and Solvency Assessment (ORSA) and Recovery Plan defined triggers and early warning indicators;

Acting as independent business partner with focus on talent development, control excellence, customer conduct, capital allocation and by providing management focused risk tools or fostering debates and proactively challenging on key business developments that may create significant exposure for example through hedging and investment remits;

Providing subject matter expertise and overseeing critical business initiatives to strengthen risk management activities, to improve the risk profile and to resolve risk events and control issues noted;

Embedding robust oversight and risk management culture and processes; and

Protecting group capital for all stakeholders.

Aegon's risk management staff structure is fully integrated. Business unit CROs have either a direct reporting line to the Group CRO or one of the regional CROs that reports directly to the Group CRO.

### Lines of defense

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

The Company's three lines of defense are its business and support functions, the Risk Management Department, and the audit function. The Company's first line of defense, including the business and support functions, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerances and risk policies. The second line of defense – the Risk Management department, including the Operational and Conduct Risk Management function – facilitates and oversees the effectiveness and integrity of ERM across the Company. The third line of defense – the audit function – provides independent assurance opinions on the effectiveness of the internal control, risk management and governance systems.

<sup>1</sup> This excludes Regions not directly subject to Solvency II regulations, i.e. the Americas and Asia Regions.

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**Table of Contents****Scenario analysis**

As part of the Company's ERM framework, Aegon undertakes regular sensitivity analyses to verify that the impact of different economic and business scenarios on earnings and the capital position are within the risk tolerances set. These analyses cover a variety of extreme event scenarios that have been constructed to test Aegon's exposure to identified critical market events or conditions that would present an extraordinary business challenge. These scenarios include events such as economic depression and inflation.

**Risk management in 2016**

In 2016, the risk committee structure was reviewed with the goal to further integrate governance for risk, actuarial and finance matters. The scope of the GRCC has been extended to include risk, accounting and actuarial frameworks, methodologies and assumptions and representation of the Risk function in the GRCC has also been strengthened. The former Enterprise Risk Management Committee (ERMC) has been replaced by the ERMAAC. Membership was broadened to include representatives from the Finance and Actuarial functions.

Aegon used its Solvency II PIM to measure and aggregate risks and to calculate its SCR in 2016, following regulatory approval. Under Solvency II, capital requirements can be calculated: (i) on the basis of an internal model, developed by the insurance company itself, which requires the approval of the supervisor; (ii) on the basis of a standard formula, in accordance with Solvency II rules and guidelines; or (iii) a combination of an internal model and the standard formula, a partial internal model. The Solvency II metrics are embedded in our key reports and are used for risk management purposes.

Aegon's existing economic model for managing risk (its Economic Framework) and its ERM framework are a strong basis on which to continue to refine the Solvency II PIM. In 2016, a project was initiated to further align Aegon's Economic Framework and the Solvency II PIM where possible.

Aegon faces a number of risks, some of which may arise from internal factors, such as inadequate compliance systems. Others, such as movements in interest rates or unexpected changes in longevity or mortality trends, are external in nature. The most significant risks Aegon faces are that of changes in financial markets (particularly related to fixed income credit, equity and interest rates) and underwriting risk (particularly related to longevity and policyholder behavior). The risks, whether internal or external, may affect the Company's operations, earnings, share price, value of its investments, or the sale of certain products and services. The risks can be captured in three risk categories: underwriting risks, financial risks and operational risks. Aegon's risk appetite, which is an element of Aegon's risk strategy, is set for these risk categories (see table below). The purpose of the risk strategy is to provide direction for the desired risk profile and to support Aegon's business strategy. An important principle underpinning Aegon's risk strategy is that risks are accepted, first and foremost, to meet customer needs. An integral part of devising an optimal risk strategy is analyzing the risk-return relationship of each risk. The optimization should be consistent with the requirements of all stakeholders, including policyholders, shareholders, bondholders, regulators and rating agencies. The risk strategy should also be linked with other risk and capital policies. A description of risks relating to Aegon's businesses and risks relating to Aegon's common shares can be found on pages 336 - 353 of this Annual Report.

<b>Risk category</b>	<b>Description</b>	<b>Appetite</b>
Underwriting	The risk of incurring losses when actual experience deviates from Aegon's best estimate assumptions on mortality, longevity, morbidity, policyholder behavior, P&C claims and expenses used to price products and establish technical provisions.	Medium to high - Underwriting risk is Aegon's core business and meets our customer needs.
Financial	The risk of incurring financial losses due to movements in financial markets and the market value of balance sheet items. Elements of financial risk are credit risk, investment risk, interest rate risk and currency risk.	Low to medium - Accepted where it meets customer needs and the risk return profile is acceptable.
Operational	Operational risk results from operational failures or external events, such as processing errors, legal and compliance issues, natural or man (made disasters, and cybercrime.)	Low - Accepted to serve customer needs, but mitigated as much as possible.

### **Credit risk**

Credit risk is the risk of economic loss due to the deterioration in the financial condition of counterparties, either through fair value losses on traded securities or through defaults on traded securities, loans and mortgages. Having a well-diversified investment portfolio means that Aegon can accept credit spread risk to earn a liquidity premium on assets that match liabilities. The focus is on high quality securities with low expected defaults

because Aegon has a low appetite for default risk. In 2016, credit spreads tightened further and Aegon reduced its exposure to credit risk. Net impairments amounted to 2 basis points of general account investments in 2016, which reflects the current benign credit environment. In the UK, the majority of the annuity book was disposed of, reducing general account credit risk. In the general account investment portfolio, Aegon retained minimum exposure to peripheral European countries.



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**Table of Contents****90 Business overview Risk management****Equity market risk and other investment risks**

Aegon runs the risk that the market value of its investments changes. Investment risk affects Aegon's direct investments in the general account, indirect investments on the account of policyholders and agreements where Aegon relies on counterparties, such as reinsurance and derivative counterparties. Aegon has a low preference for investments in equity securities via the general account. Equity investments generate an equity risk premium over the long run, but in combination with a high capital charge result in a relatively low return on capital. Aegon has experience and expertise in managing complex investment guarantees and leverages this capability by providing customers access to a range of investment strategies and guaranteed benefits. Equity markets were volatile over 2016 but closed the year flat in Europe, and up by approximately 10% in the US. Stock markets in the UK benefitted from the depreciation of GBP following the UK referendum on withdrawal from the European Union. During the year, Aegon continued to progress its program of hedging equity risk at its UK pension business, variable annuities, and US and Dutch operations in order to protect the Company against a possible deterioration in equity markets. The US business has a macro hedge in place to protect the business capital position of variable annuities against a decline in equity markets. As a result of a mismatch between US statutory and IFRS accounting, this hedge showed a negative impact on income before tax of EUR 259 million in 2016 (2015: EUR 342 million).

**Interest rate risk**

Aegon is exposed to interest rates as both its assets and liabilities are sensitive to movements in the long and short term interest rates as well as to changes in the volatility of interest rates. Aegon accepts interest rate risk in order to meet customer needs. However, as no spread is earned on this interest rate risk, Aegon prefers to hedge the risk to the extent possible. In 2016, 30-year swap rates in the US fell and rose over the course of the year, closing unchanged at 2.6%. Swap rates in the eurozone and UK decreased by approximately 40 bps and 75 bps, respectively, to 1.2% and 1.4%. The existing interest rate programs remained in place in 2016 for hedging guarantees in the Netherlands and the US, and long-term care business for Aegon's operations in the US, and for its variable annuities businesses in the US, Ireland and Asia.

**Currency exchange rate risk**

As an international company, Aegon is exposed to different currencies and, therefore, to movements in currency exchange rates. Aegon does not, however, consider this exposure to be material from an asset liability management perspective. The Company holds its capital base in various currencies in amounts that correspond to the book value of individual business units.

**Liquidity risk**

Aegon needs to maintain sufficient liquidity to meet short term cash demands under normal conditions, but also in crisis situations. To that end, Aegon has put a strong liquidity management strategy in place. The Company considers extreme liquidity stress scenarios, including the possibility of prolonged frozen capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date. In addition, the Company has liquidity stress planning in place. In 2016, Aegon retained significant holdings of cash and highly liquid assets as a precaution against potential adverse market developments. Stress tests show that available liquidity would more than match the Company's liquidity requirements even if market conditions were to significantly deteriorate. At the end of 2016 the Company sourced additional interest rate contingent liquidity facilities to support

stressed requirements in the event of a rapid rise in interest rates.

### **Underwriting risk**

Underwriting risk relates to the products sold by Aegon's insurance entities. It is the risk of incurring losses when actual experience deviates from Aegon's best estimate assumptions on mortality, morbidity, policyholder behavior, P&C claims and expenses. Aegon has a preference to selectively grow underwriting risk, but this needs to go hand-in-hand with a strong underwriting process. Aegon's earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used to price products and establish technical liabilities. Changes in, among other things, morbidity, mortality, longevity trends and policyholder behavior may have a considerable impact on the Company's income. Assumptions used to price products and establish technical liabilities are reviewed on a regular basis. In 2016, Aegon made several changes and updates to assumptions and models. Please refer to note 3 Critical accounting estimates and judgment in applying accounting policies for further information.

### **Operational risk**

Like other companies, Aegon faces operational risk resulting from operational failures or external events, such as processing errors, acts from personnel, and natural or man-made disasters. Aegon's systems and processes are designed to support complex products and transactions and to avoid such issues as system failures, business disruption, financial crime and breaches of information security. Aegon works on analyses on a continuous basis, studying such operational risks, and regularly develops contingency plans to deal with them.

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**Table of Contents**Business overview **Risk management** 91**Cyber risk**

Cyber security has been recognized by Aegon as an emerging risk whereby Aegon's digital security controls and cyber threat management program, as defined within the Company's global information security program, are key in reducing the risk by establishing security controls that safeguard data, technology and operations as well as activities outsourced to third parties. Aegon prioritizes its commitment of significant resources to protect and continually strengthen its existing security control environment and preventive tooling to minimize impact and exposure as new cyber threats and exposures emerge. Comprehensive evaluations and scenario testing of security controls including detection and response capabilities are frequently performed by both internal and external experts and resulting vulnerabilities require risk based actions plans that are reported, tracked and monitored by management. Aegon has in place an experienced Global Chief Information Security Officer that has oversight of the program with direct reporting lines to the Global Chief Technology Officer who is a member of the Management Board. Regular updates are provided to Aegon's Supervisory Board through reports given by the Global Chief Information Security Officer or Global Chief Technology Officer. Aegon takes cybercrime seriously and reasonably applies available safeguards to assure investors and customers that data, technology and operations are adequately protected.

**Conduct Risk**

Both industry-wide and within Aegon, cultural & behavioral elements of risks increasingly play a role within overall risk frameworks. Conduct risk refers to the risks inherent in behaviors, business and staff integrity and business culture, including, but not limited to, meeting the standards of the Aegon Market Conduct Principles. Aegon has improved several conduct policies (e.g. conflicts of interest and sanctions) and continued to strengthen the group-wide oversight of conduct risks during 2016.

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## **Capital and liquidity management**

### **Guiding principles**

The management of capital and liquidity is of vital importance for the Aegon group, for its customers, investors in Aegon securities and for Aegon's other stakeholders. In line with its risk tolerance, the goal of Aegon's capital and liquidity management is to promote strong and stable capital adequacy levels for its businesses, next to maintaining adequate liquidity to ensure that the Company is able to meet its obligations.

Aegon follows a number of guiding principles in terms of capital and liquidity management:

- Promoting strong capital adequacy in Aegon's businesses and operating units;
- Managing and allocating capital efficiently in support of the strategy and in line with its risk tolerance;
- Maintaining an efficient capital structure, with an emphasis on optimizing Aegon's cost of capital;
- Maintaining adequate liquidity in the operating units and at the holding to ensure that the Company is able to meet its obligations by enforcing stringent liquidity risk policies; and
- Maintaining continued access to international capital markets on competitive terms.

Aegon believes these guiding principles together strengthen the Company's ability to withstand adverse market conditions, enhance its financial flexibility, and serve both the short-term and the long-term interests of the Company, its customers and its other stakeholders.

Management and monitoring of capital and liquidity is firmly embedded in Aegon's ERM framework, and is in line with Aegon's risk tolerance. Aegon's risk tolerance focuses on financial strength, continuity, steering the risk balance and the desired risk culture. Its core aim is to assist management in carrying out Aegon's strategy within the Group's capital and liquidity resources.

### **Management of Capital**

The Company's overall capital management strategy is based on adequate solvency capital, capital quality and the use of leverage.

### **Capital adequacy**

Aegon's goal for both its operating units and for the Aegon group as a whole is to maintain a strong financial position and to be

able to sustain losses from adverse business and market conditions. The capitalization of Aegon and its operating units is managed based on the most stringent of local regulatory requirements, rating agency requirements and self-imposed criteria.

### **Regulatory capital requirements**

With the introduction of the Solvency II regulatory framework on January 1, 2016, the regulatory capital requirements for EU domiciled insurance and reinsurance entities changed, as well as the regulatory capital requirements at group level for groups, such as the Aegon Group. In Aegon's other markets, most notably in the Americas and Asia, the local regulatory capital requirements form the basis for Aegon's internal capital management framework.

Please note that numbers and ratios related to Solvency II as disclosed in this section represent Aegon's estimates, are not final until filed with the regulator and subject to supervisory review. Solvency II capital ratios are also still subject to final interpretations of Solvency II regulations including the assumptions underlying Aegon's factor for the loss absorbing capacity of deferred taxes in the Netherlands. New guidance from the Dutch Central Bank issued in February 2017 is under review. The Solvency II capital ratios of the Group and Aegon the Netherlands do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon in the Netherlands in the past as the potential liability cannot be reliably quantified at this point.

### Adequate capitalization

To calculate its Group Solvency Ratio, Aegon applies a combination of the group consolidation methods available under Solvency II which are the Accounting Consolidation and Deduction & Aggregation based methods. Solvency II capital requirements are mainly used for the EEA-based insurance and reinsurance entities, applying the Accounting Consolidation method. Local requirements are used for insurance and reinsurance entities in (provisionally) equivalent third-country jurisdictions. Most notably, the local regulatory requirements of the US life insurance companies are included in the Group Solvency Ratio using 250% of the RBC Company Action Level (CAL). Aegon Bank is excluded from the Group Solvency ratio, as required by the Group Solvency II supervisor, DNB.

On December 31, 2016, Aegon's estimated capital position was:

	<b>December 31, 2016</b> <sup>1), 2), 3)</sup>
Group own funds	18,112
Group SCR	11,524
Group Solvency II ratio	157%

<sup>1</sup> The Solvency II ratios are estimates and, are not final until filed with the regulator and subject to supervisory review. The Group Solvency II ratio has been updated since the earlier public communications on February 17, 2017 as a result of a change in the calculation of the risk margin in the Netherlands.

<sup>2</sup> The Solvency II ratios are based on Aegon's partial internal model.

<sup>3</sup> Aegon Bank is not included in the Group Solvency II ratio.

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Aegon Group own funds amounted to EUR 18,112 million at December 31, 2016. During the year, capital generation by its operating units was more than offset by the impact of less favorable markets, final dividend distributed to its shareholders and the execution of the share buyback program.

Aegon Group PIM SCR amounted to EUR 11,524 million at December 31, 2016. The sale of Aegon's annuity business in the United Kingdom and more thorough application of the volatility adjustment in Aegon the Netherlands reduced SCR, while less favorable markets resulted in additional required capital.

Under Aegon's capital management framework, the capitalization levels of the most relevant country units are as follows:

	<b>Capitalization December 31, 2016 <sup>1)</sup>, <sup>2)</sup></b>
Aegon USA (Life entities) (RBC CAL)	440%
Aegon the Netherlands (Solvency II ratio)	135%
Aegon United Kingdom (Solvency II ratio)	156%

<sup>1</sup> The Solvency II ratios are estimates, are not final until filed with the regulator and subject to supervisory review.

<sup>2</sup> Refer to section Internal capital management framework for Aegon's capitalization target ranges.

**Aegon Americas**

In the United States, regulation of the insurance business is principally at the state level. State insurance regulators and the National Association of Insurance Commissioners have adopted risk-based capital (RBC) requirements for insurance companies. RBC calculations measure the ratio of a company's statutory capital, which is measured on a prudent regulatory accounting basis, to a minimum capital amount determined by the risk-based capital formula. The RBC formula measures exposures to investment risk, insurance risk, market risk, and general business risk. The formula, as used for calculating the solvency ratio, applies a covariance diversification offset to determine the appropriate risk-based capital. Life reinsurance is treated as life insurance. The most pertinent RBC measure is the Company Action Level (CAL) risk-based capital requirement. This is the regulatory intervention level at which a company has to submit a plan to its state regulators. The domiciliary state regulator has the authority to require additional capital depending on the type, volume and nature of the business being conducted. The domiciliary state regulator also has the ability to require corrective actions if a company is deemed by the commissioner to pose a Hazardous Financial Condition. The CAL is 200% of the Authorized Control Level (ACL), the level at which regulators are permitted to seize control of the Company. At the end of 2016, the combined risk-based capital ratio of Aegon's life insurance subsidiaries in the United States was estimated to be 440% of the CAL risk-based capital requirement. As of January 1, 2016, under the new Solvency II requirements, the activities of Aegon Americas life insurance and reinsurance companies have been consolidated into the Aegon Group Solvency II figures through Deduction & Aggregation using available and required capital as per the local capital regimes. US insurance and

reinsurance entities are included in Aegon's group solvency calculation in accordance with local US (RBC) requirements of the top regulated entity. Aegon uses 250% of the local RBC Company Action Level as the SCR equivalent for including the US life insurance and reinsurance entities into the group solvency calculation.

The non-regulated US entities and the US holding companies are included in the Aegon Group Solvency II results through application of the Accounting Consolidation method under Solvency II, using Solvency II valuation and capital requirement calculations for these entities. The contribution of the Aegon Americas entities to the group Solvency II position on December 31, 2016 is estimated to 163%. This ratio includes the US Life insurance and reinsurance entities as well as non-regulated US entities and US holding companies.

The Americas ratio does not include a diversification benefit between the US life companies and there is no diversification benefit between US and other group entities.

### [Aegon the Netherlands](#)

Aegon the Netherlands uses a PIM to calculate the solvency position of its insurance activities under Solvency II. The calculation includes the use of the volatility adjustment, but does not include the use of any transitional measures. The internal model of Aegon the Netherlands was approved on November 26, 2015, by the supervisor DNB as part of the Internal Model Application Process. The combined Solvency II position of the activities of Aegon the Netherlands, including Aegon Bank<sup>1</sup>, on December 31, 2016, is estimated to be 135%. The solvency position of the banking activities are calculated using the CRR/CRD IV framework. Numbers and ratios related to Solvency II of Aegon the Netherlands represent Aegon's estimate. Assumptions underlying Aegon's factor for the loss absorbing capacity of deferred taxes will be reviewed following new guidance from the Dutch Central Bank issued in February 2017. At December 31, 2016, the factor of LAC-DT is 75%. The Solvency II capital ratio of the Group and Aegon the Netherlands does not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon in the Netherlands in the past as the potential liability cannot be reliably quantified at this point.

<sup>1</sup> Note that on a consolidated group level Aegon Bank is not included in the calculation of the Solvency II ratio.

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Aegon United Kingdom uses a PIM to calculate the solvency position of its insurance activities under Solvency II.

The calculation includes the use of both the matching adjustment and volatility adjustment (for the with-profits fund) in addition to transitional measures on technical provisions. The internal model of Aegon United Kingdom 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, 2016, is estimated to be 156%.

When Solvency II became effective at January 1, 2016, Aegon UK made use of the transitional provisions on technical provisions as allowed for under the Solvency II framework. As a result of the reinsurance transactions with Rothesay Life and L&G announced on April 11, 2016 and May 23, 2016 respectively, Aegon UK no longer uses the transitional measures on technical provisions.

**Sensitivities**

Aegon calculates sensitivities of its Solvency II ratios as part of its risk management framework. The following table describes the shocks to parameters used to assess the sensitivities, and their estimated impact on the Solvency II ratio at December 31, 2016:

	<b>Scenario</b>	<b>Group</b>	<b>US</b>	<b>NL</b>	<b>UK</b>
Equity markets	+20%	(1%)	(2%)	+2%	0%
Equity markets	-20%	(6%)	(7%)	(4%)	0%
Interest rates	+100 bps	+2%	(6%)	+11%	+16%
Interest rates	-100 bps	(18%)	(12%)	(15%)	(20%)
Credit spreads <sup>1)</sup>	+100 bps	+2%	0%	+6%	+17%
US credit defaults <sup>2)</sup>	~+200 bps	(17%)	(22%)	-	-
Dutch mortgage spreads <sup>3)</sup>	+50 bps	(3%)	-	(11%)	-
Ultimate Forward Rate	-50 bps	(4%)	-	(13%)	-
Longevity shock	+5%	(7%)	(2%)	(13%)	(4%)
NL loss absorbency of taxes factor	-25%pts	(3%)	-	(8%)	-

<sup>1</sup> Non-government bonds credit spreads.

<sup>2</sup> Additional defaults for 1 year including rating migration of structured products.

<sup>3</sup> Assumes no effect on the volatility adjustment.

Aegon is mainly exposed to movements in interest rates, credit spreads and defaults/migrations, and longevity. In the downward equity shock scenario, the benefit of a lower SCR of Aegon UK diversifies at Group, but the lower own funds do not, increasing the impact on Group. The sensitivity towards lower interest rates is mainly caused by higher



SCRs of Aegon the Netherlands and Aegon UK and lower own funds in the US due to additional reserves. The upward interest rate shock scenario in the US is affected by the impact from statutory hedge losses on the recognition of DTAs. Aegon the Netherlands and Aegon UK are exposed to corporate credit spread narrowing, via the volatility adjustment and the IAS 19 discount rate respectively. Lower mortality rates increase the longevity exposed liabilities,

especially for Aegon the Netherlands and Aegon UK, the latter mainly via the own pension scheme. The higher liability values decrease own funds, as longevity is only partially hedged, and increase the SCR.

### Rating agency ratings

Aegon's objective is to maintain a very strong financial strength rating in its main operating units, and this plays an important role in determining the Company's overall capital management strategy. Aegon maintains strong financial strength ratings from leading international rating agencies for its main operating units, and a strong credit rating for Aegon N.V.

Agency	Aegon			
	Aegon N.V.	Aegon USA	Aegon the Netherlands	Aegon UK
<b>December 31, 2016</b>				
S&P Global	A-	AA-	AA-	A+
Moody's Investors Service	A3	A1	-	-
Fitch Ratings	A-	A+	-	A+

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**Table of Contents****Internal capital management framework**

In managing the capital adequacy of the group and its operating units, Aegon's capital management framework is built on, among other things, managing capitalizations towards target capital

management zones. Under Aegon's capital management framework the following target capitalization zones are the most relevant:

	Capitalization target range
Aegon Group	140% - 170% Solvency II Capital Ratio
Aegon USA (Life entities)	350% - 450% RBC Company Action Level
Aegon the Netherlands	130% - 150% Solvency II Capital Ratio
Aegon United Kingdom	130% - 150% Solvency II Capital Ratio

The frequent monitoring of actual and forecast capitalization levels of both the Aegon Group and of its underlying businesses is an important element in Aegon's capital framework in order to actively steer and manage towards maintaining adequate capitalization levels. Aegon's capital framework is based on several capital management zones in which escalating management actions are called for in a timely manner to ensure

there is always adequate capitalization of both the Aegon Group and its operating units.

The capital management zones and the management interventions connected to these zones are set consistently throughout the Group, and illustrated in the table below.

Aegon Group	Capital management zones	European Economic Area entities	US Life entities	Capital management actions
>170% SCR	Opportunity	>150% SCR	>450% RBC	Accelerate capital redeployment and/or additional dividends.
140% - 170% SCR	Target	130% - 150% SCR)	350% - 450% RBC)	Execute capital deployment and remittances according to capital plan.
120% - 140%	Caution	120% - 130% SCR)	300% - 350% RBC)	Re-assess capital plan and risk positions.)

SCR				
100% - 120% SCR	Recovery	100% - 120% SCR)	100% - 300% RBC)	Re-assess capital plan and risk positions. Reduce or suspend remittances.)
<100% SCR	Regulatory plan	<100% SCR	<100% RBC	Suspension of dividends. Regulatory plan required.

**Minimum solvency requirements**

Insurance laws and regulations in local regulatory jurisdictions often contain minimum regulatory capital requirements. For insurance companies in the European Union, Solvency II formally defines a lower capital requirement, the Minimum Capital Requirement (MCR). An irreparable breach of the MCR would lead to the withdrawal of the insurance license. Similarly, for the US insurance entities the withdrawal of the insurance license is triggered by a breach of 100% of the Authorized Control Level (ACL), which is 50% of the Company Action Level (CAL).

With the introduction of Solvency II for EEA countries, Aegon views these minimum regulatory capital requirements as the level around which regulators will formally require management to provide regulatory recovery plans. For the US insurance entities this is set at 100% Company Action Level (CAL) and for insurance companies in the European Union this is set at 100% SCR.

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The minimum regulatory capital requirements, as viewed by Aegon, for its main operating units and the capitalization levels on December 31, 2016, are included in the following table:

Capital requirements	Minimum capital requirement	Actual capitalization	Excess over minimum capital requirement
Aegon USA (Life entities) <sup>1), 3)</sup>	100% Company Action Level (NAIC RBC CAL)	440% of combined CAL	~EUR 7.4 bln
Aegon the Netherlands <sup>2), 3)</sup>	100% Solvency II SCR	135% Solvency II SCR	~EUR 1.3 bln
Aegon United Kingdom <sup>3)</sup>	100% Solvency II SCR	156% Solvency II SCR	~EUR 1.0 bln

<sup>1</sup> Capitalization for the United States represents the internally defined combined risk-based capital ( RBC ) ratio of Aegon's life insurance subsidiaries in the United States. The combined RBC ratio utilizes the NAIC RBC ratio excluding affiliated notes and taking into account excess or deficient amounts related to offshore life affiliates.

<sup>2</sup> Including Aegon Bank.

<sup>3</sup> Please note, this reflects Aegon's estimated Capitalization levels.

The capitalization level and shareholders' equity of the operating units can be impacted by various factors (e.g. general economic conditions, capital markets risks, underwriting risk factors, changes in government regulations, legal and arbitrational proceedings). To mitigate the impact of such factors on the ability of operating units to transfer funds, the operating units hold additional capital in excess of the levels of the minimum regulatory solvency requirements.

In practice and for upstreaming purposes Aegon manages the capitalization of its operating units towards the capitalization target ranges as identified in Aegon's capital framework, that are in excess of the minimum regulatory requirements contained in the applicable regulations and in excess of the minimum requirements as mentioned in the table above.

**Improving risk-return profile**

Aegon continues to take measures to improve its risk-return profile. These measures include the continued run-off of Aegon's spread-based institutional business in the United States, the sale in 2015 of Aegon's Canadian Life insurance business, and the strategic growth in fee-based business. In 2016, Aegon divested its annuity business in the UK, and reinvested part of the proceeds for the acquisition of Cofund and BlackRock's DC business in the UK.

Extensive asset-liability management and hedging programs are also in place. Examples of these programs include hedging the interest rate and equity risk from guarantees in the Netherlands, hedging of interest rate risk and equity risk in the Aegon's UK business, and hedging the capital position in the Americas against adverse equity and interest rate movements. In addition, Aegon is actively involved in hedging longevity risk and continuously monitors the risk-return profile of new business written, withdrawing products that do not meet the required hurdle rates.

### **G-SII designation**

On November 3, 2015, Aegon was first designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). The FSB reviews the G-SII designation annually, and Aegon continues to be designated at the time of publication of this annual report.

As a result of the G-SII designation, Aegon is subject to an additional layer of direct supervision at group level. Aegon has put a specific G-SII governance structure in place to ensure the G-SII requirements are met. Within 12 months of a G-SII designation, G-SIIs are required to develop a liquidity risk management plan, a systemic risk management plan, and an ex-ante recovery plan. In accordance with these requirements, Aegon submitted these plans to DNB, and to the G-SII crisis management group, that was established for Aegon. These authorities are required: to establish a crisis management group (within 6 months of G-SII designation); to enter into a cross-border cooperation agreement; to develop a resolution plan based on a resolution strategy (within 18 months); and to undertake a resolvability assessment (within 24 months). Aegon has completed this exercise.

As of 2016, G-SIIs have calculated and reported a Basic Capital Requirement (BCR) and Higher Loss Absorbing Capacity (HLA) on a confidential basis pursuant to IAIS guidelines. Furthermore, the IAIS is, at the time of publication of Aegon's Annual Report 2016, consulting on an International Capital Standard (ICS), with the plan being to adopt ICS Version 1.0 for confidential reporting in mid-2017.

**Table of Contents****Capital quality**

Capital quality is a reflection of Aegon's stability and ability to absorb future financial losses.

Solvency II distinguishes between basic own funds and ancillary own funds. Aegon's total own funds are comprised of Tier 1, Tier 2 and Tier 3 basic own funds. Aegon currently does not have ancillary own funds. Tier 1 basic own funds are divided into unrestricted Tier 1 items and restricted Tier 1 items. The latter

category contains own fund items subject to the restrictions of article 82 (3) of the Solvency II Delegated Regulation, which includes grandfathered Tier 1 own fund items. Based on agreements with the supervisory authorities, Aegon applies a fungibility and transferability restriction with respect to certain charitable trusts within Aegon Americas and a restriction equal to the own funds of Aegon Bank. These restrictions, applied to Aegon's basic own funds, result in Aegon's available own funds.

Tier 1	Tier 2	Tier 3
<b>Unrestricted Tier 1</b> Equity (Share capital and share premium).  Reconciliation Reserve.	Dated or perpetual Subordinated capital instruments. With an original maturity of at least 10 years. Limited loss absorption. With suspension of payments and deferral of interest.	Dated or perpetual Subordinated capital instruments. With an original maturity of at least 5 years. Limited loss absorption. With suspension of payments and deferral of interest. Net deferred tax assets.
<b>Restricted Tier 1</b> Perpetual subordinate capital instruments with loss absorption.		

**Available own funds**

Unrestricted Tier 1 capital consists of Aegon's share capital, share premium and the reconciliation reserve. The reconciliation reserve includes deductions from foreseeable dividends, which are dividends that have been approved by the Board but that have not yet been distributed to Aegon's shareholders, and restrictions related to Aegon's with-profits fund in the United Kingdom where the excess of own funds over its capital requirement is ring fenced for of the policyholder, not Aegon's shareholders.

Restricted Tier 1 capital consists of Aegon's junior perpetual capital securities and perpetual cumulative subordinated bonds, both of which are grandfathered. Tier 1 restricted capital is subject to tiering restrictions.

Aegon's Tier 2 capital consists of its grandfathered dated subordinated notes, and certain deferred tax asset balances related to the inclusion of (provisional) equivalent regimes in Aegon's Solvency II calculation. Both restricted Tier 1 and Tier 2 capital is subject to tiering restrictions.

The grandfathered restricted Tier 1 and Tier 2 capital instruments are grandfathered to count as capital under Solvency II for up to 10 years as from January 1, 2016. All call dates are listed in note 33 Other equity instruments and note 34 Subordinated borrowings.

Aegon's Tier 3 capital under the Solvency II framework consists of Aegon's deferred tax asset position under Solvency II.

### **Eligible own funds**

Under Solvency II regulation, restrictions apply to the eligibility of Tier 2 and Tier 3 capital, as well as the eligibility of restricted Tier 1 capital. The total of Tier 2 and Tier 3 capital may not exceed 50% of the SCR whilst the eligibility of Tier 3 capital is limited to 15% of SCR. Restricted Tier 1 capital may not exceed 20% of Tier 1 Own Funds. As a result, it is possible that part of the own funds overflows to another tier or that is not considered eligible for the determination of the Group Solvency ratio.

When applying the eligibility restrictions, Aegon determines its tiering limits based on:

EEA entities represent the part of the group covered by the Accounting Consolidation based method, where tiering limits are based on the SCR of the consolidated part of the group, i.e. the consolidated group SCR; and, Non-EEA entities represent the part of the group covered by the Deduction & Aggregation method. If a prudential regime of an equivalent or provisionally equivalent third-country applies, such as the regulatory regimes in the United States, Aegon does not initially categorize these own funds into tiers or defines tiers that are significantly different from those established under the Solvency II Directive. The own funds brought in by the Deduction & Aggregation method are then allocated to tiers according to the principles laid out in Articles 87 to 99 of the Solvency II Directive for each individual third-country insurance undertaking.

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The table below shows the composition of Aegon's available and eligible own funds, taking into consideration tiering restrictions.

	December 31, 2016	
	Available own funds	Eligible own funds
Tier 1 - unrestricted	10,648	10,648
Tier 1 - restricted	3,817	2,516
Tier 2	2,008	3,310
Tier 3	1,638	1,638
<b>Total Tiers</b>	<b>18,112</b>	<b>18,112</b>

As a result of applying the restrictions to the available own funds, there was an overflow from Tier 1 restricted own funds to Tier 2 in the eligible own funds per December 31, 2016.

**Aegon's use of leverage**

Aegon uses leverage in order to lower the cost of capital that supports businesses in the Aegon group, thereby contributing to a more effective use of capital and realizing capital efficiencies. In managing the use of financial and non-financial leverage throughout the group, Aegon has implemented a Leverage Use Framework that is part of the Aegon's broader Enterprise Risk Management framework.

**Leverage metrics**

In line with the guiding principles of its capital and liquidity management, Aegon N.V. monitors and manages several leverage metrics:

- Gross financial leverage ratio;
- Fixed charge coverage; and
- Various rating agency leverage metrics.

Aegon's gross financial leverage ratio is calculated by dividing total financial leverage by total capitalization. Aegon defines total financial leverage as debt or debt-like funding issued for general corporate purposes and for capitalizing Aegon's business units. Total financial leverage includes hybrid instruments, subordinated and senior debt. Aegon's total capitalization consists of the following components:

- Shareholders' equity, excluding revaluation reserves, cash flow hedge reserves, and the remeasurement of defined benefit plans, based on IFRS as adopted by the EU;
- Non-controlling interests and share options not yet exercised; and
- Total financial leverage.

Aegon's fixed charge coverage is a measure of the Company's ability to service its financial leverage. It is calculated as the sum of underlying earnings before tax and interest expenses on financial leverage divided by interest payments on



financial leverage. The fixed charge coverage includes the impact of interest rate hedging.

For further information please refer to Note 46 on Capital Management and Solvency.

### **Operational leverage**

Although operational leverage is not considered part of Aegon's total capitalization, it is an important source of liquidity and funding. Operational leverage relates primarily to financing Aegon's mortgage portfolios through securitizations, warehouse facilities, covered bonds, and the funding of US Regulation XXX and Guideline AXXX redundant reserves.

Aegon enters into reinsurance agreements for risk and capital management purposes with several affiliated captive insurance companies (captives). All captives are fully consolidated for IFRS reporting and for Solvency II based on local valuations under equivalence.

The captives are utilized for a number of purposes that may include:

- Financing term life insurance (subject to Regulation XXX reserves) and universal life insurance with secondary guarantees (subject to Regulation AXXX reserves) to support lower-risk statutory reserves at a lower cost for policyholders and shareholders;
- Managing variable annuity hedging programs;
- Managing and segregating risks; and
- Monetizing embedded value.

All external financing provided to captives to support statutory reserves is disclosed in note 39 Borrowings to the consolidated financial statements to the extent to which it has been funded.

Letter of Credit (LOCs) issued by third parties provided to captives to provide collateral to affiliated insurers are disclosed in note 48 Commitments and contingencies. These LOCs have been provided by third parties for the benefit of the affiliated company whose liabilities are reinsured.

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**Table of Contents****Funding and back-up facilities**

The majority of Aegon's financial leverage is issued by Aegon N.V., the parent company. A limited number of other Aegon companies have also issued debt securities, but for the most part these securities are guaranteed by Aegon N.V.

Aegon N.V. has regular access to international capital markets under a USD 6 billion debt issuance program. Access to the capital market in the United States is made possible by a separate shelf registration.

Aegon also has access to domestic and international money markets through its USD 4.5 billion commercial paper programs. On December 31, 2016, Aegon had EUR 128 million outstanding under these programs.

To support its commercial paper programs and need for LOCs, and to enhance its liquidity position, Aegon maintains backup credit and LOC facilities with international lenders. The Company's principal arrangement is a EUR 2 billion syndicated revolving credit facility that matures in 2019, and an additional LOC facility of USD 2.6 billion, which matures in 2021. In addition, Aegon also maintains various shorter-dated bilateral backup liquidity, and committed and uncommitted LOC facilities.

**Liquidity management**

Liquidity management is a fundamental building block of Aegon's overall financial planning and capital allocation processes. The Company's liquidity risk policy sets guidelines for its operating companies and the holding in order to achieve a prudent liquidity profile and to meet cash demands even under extreme conditions.

Liquidity is coordinated centrally and managed both at Aegon N.V. and at the operating unit level. Aegon maintains a liquidity policy that requires all business units to project and assess their sources and uses of liquidity over a two-year period under normal and severe business and market scenarios. This policy ensures that liquidity is measured and managed consistently across the Company, and that liquidity stress management plans are in place.

**Sources and uses of liquidity****Liquidity in Aegon's subsidiaries**

Aegon's operating units are primarily engaged in the life insurance and pensions business, which is a long-term activity with relatively illiquid liabilities and generally matching assets. Liquidity consists of liquid assets held in investment portfolios, in addition to inflows generated by premium payments and customer deposits. These are used primarily to purchase investments, as well as to fund benefit payments to policyholders, policy surrenders, operating expenses, and, if the subsidiary's capital position allows, to pay dividends to the holding.

After investments have been made in new business to generate organic growth, capital generated by Aegon's operating units is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating units in line with Aegon's capital management and liquidity risk policies. In addition, the ability of Aegon's insurance subsidiaries to transfer funds to the holding company is also constrained by the need for these subsidiaries to remain adequately capitalized at the levels set by local insurance regulations, and as administered by local

insurance regulatory authorities.

### **Aegon N.V.**

At the holding company Aegon N.V., liquidity is sourced from internal dividends from operating units and through the capital markets. The main sources and uses of liquidity at the holding company Aegon N.V. are dividends from operating units, movements in debt, net expenses (including interest), funding operations, capital returns to shareholders, and the balance of acquisitions and divestitures. In addition, contingent internal and external liquidity programs are maintained to provide additional safeguards against extreme unexpected liquidity stresses.

Aegon uses cash flows from its operating units to pay for holding expenses, including funding costs. The remaining cash flow is available to execute Aegon's strategy and to fund dividends on its shares. In order to enable equity investors to share in Aegon's performance, Aegon aims to pay out a sustainable dividend, which may increase based on Aegon's performance.

When determining whether to declare or propose a dividend, Aegon's Executive Board balances prudence with offering an attractive return to shareholders. This is particularly important during adverse economic and/or financial market conditions. Furthermore, Aegon's operating subsidiaries are subject to local insurance regulations that could restrict dividends to be paid to the holding company. There is no requirement or assurance that Aegon will declare and pay any dividends.

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100 Business overview **Capital and liquidity management**

**Aegon's holding excess capital**

The ability of the holding company to meet its cash obligations depends on the amount of liquid assets on its balance sheet and on the ability of the operating units to pay dividends to the holding company. In order to ensure the holding company's ability to fulfil its cash obligations and maintain sufficient management flexibility to manage capital and liquidity support for Aegon's operating units and external dividend stability, it is the Company's policy that the holding excess capital position, including Aegon's centrally managed (unregulated) holding companies, is managed to a target range of EUR 1.0 to 1.5 billion.

On December 31, 2016, Aegon held a balance of EUR 1.5 billion in excess capital at the holding, compared with EUR 1.4 billion on December 31, 2015. The increase of EUR 0.1 billion reflects the net impact of dividends from subsidiaries, capital injections in subsidiaries, divestments, acquisitions, the issuance of senior unsecured notes, holding expenses and capital returns to shareholders. The proceeds of the issuance of senior unsecured notes have been earmarked for the redemption of EUR 500 million 3% senior unsecured notes due in July 2017.

Aegon's liquidity is invested in accordance with the Company's internal risk management policies. Aegon believes that its working capital, backed by its external funding programs and facilities, is ample for the Company's present requirements.

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**Table of Contents****Regulation and Supervision**

Individual regulated Aegon companies are each subject to prudential supervision in their respective home countries. Insurance and banking companies, together with a number of the investment undertakings in the Group, are required to maintain a minimum solvency margin based on local requirements. In addition, some parts of the Group are subject to prudential requirements on a consolidated basis, including capital and reporting requirements. Such additional requirements lead, in certain circumstances, to duplicative requirements, such as the simultaneous application of consolidated banking requirements and Solvency II group solvency requirements. Eligible capital to cover solvency requirements includes shareholders' equity, perpetual capital securities, and dated subordinated debt.

**Solvency II****Introduction**

The Solvency II framework imposes prudential requirements at group level as well as on the individual EU insurance and reinsurance companies in Aegon. Insurance supervision is exercised by local supervisors on the individual insurance and reinsurance companies in the Aegon group, and by the group supervisor at group level. DNB is Aegon's Solvency II group supervisor. Solvency II, which came into effect in EU member states on January 1, 2016, introduced economic, risk-based capital requirements for insurance and reinsurance companies in all EU member states, as well as for groups with insurance and/or reinsurance activities in the EU. These capital requirements should, compared with the former Solvency I and Insurance Groups Directive (IGD) framework, better reflect the actual risk profile of insurance and reinsurance companies and insurance groups. The Solvency II approach to prudential supervision can be described as a total balance sheet-approach, and takes material risks to which insurance companies are exposed into account in addition to the correlation between these risks.

The Solvency II framework is structured along three pillars. Pillar 1 comprises quantitative requirements (including technical provisions, valuation of assets and liabilities, solvency requirements and own fund requirements). Pillar 2 requirements include governance and risk management requirements, and requirements for effective supervision (the supervisory review process). Pillar 3 consists of disclosure and supervisory reporting requirements. These three pillars should not only be considered in isolation, but interact with one another. More complex risks, for instance, require a stronger risk management and governance structure, and a more complex governance structure could lead to higher capital requirements.

In addition to these requirements, which apply to individual EU insurers and reinsurers, the Solvency II framework is complemented by requirements that apply at group level (group supervision). This means that a number of requirements from the Solvency II framework that apply to the individual EU insurance and reinsurance undertakings apply, with the necessary modifications at group level. The core focus of EU insurance supervision continues to be on the supervision of individual EU insurance and reinsurance undertakings. In addition, group supervision remains supplementary to the supervision of individual insurance and reinsurance undertakings, and group supervision encompasses more extensive requirements than supplementary supervision under the EU Insurance Groups Directive.

**Pillar 1**

Solvency II requires EU insurance and reinsurance companies to determine technical provisions at a value that corresponds with the present exit value of their insurance and reinsurance obligations towards policyholders and other beneficiaries of insurance and reinsurance contracts. The calculation of the technical provisions should be based on market consistent information to the extent to which that information is available. The value of the technical provisions is equal to the sum of a best estimate and a risk margin. The discount rate at which technical provisions are calculated is an important element in order to determine the technical provisions. This and other parameters to determine the technical provisions may have an important effect on the amount and volatility of the own funds that insurance and reinsurance undertakings are required to maintain. The Solvency II framework contains several measures (in particular the volatility adjustment and matching adjustment) that should reduce volatility of the technical provisions and own funds, in particular for insurance and reinsurance products with long-term guarantees.

Insurers and reinsurers are required to hold eligible own funds in addition to the assets held to cover the technical provisions in order to ensure that they are able to meet their obligations over the next 12 months with a probability of at least 99.5% (insurance or reinsurance company's balance sheet ability to withstand a 1-in-200-year event). The buffer that insurance and reinsurance companies are required to hold is the SCR. Insurance and reinsurance companies are allowed to: (a) use a standard formula to calculate their SCR (the rules for which are set out in detail in the Solvency II rules and guidelines); (b) use an internal model (for which the approval of the supervisory authorities is required); or (c) use a partial internal model (PIM) (which is a combination of the standard formula and an internal model). An internal model is developed by the insurance or reinsurance company in question, and should better reflect the actual risk profile of the insurance or reinsurance company than the standard formula. Aegon (as a group) uses a PIM.

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**Table of Contents****102 Business overview Regulation and Supervision**

In addition to the SCR, insurance and reinsurance companies should also calculate a Minimum Capital Requirement (MCR). This represents a lower level of financial security than the SCR, below which the level of eligible own funds held by the insurance or reinsurance company is not allowed to drop.

Insurance and reinsurance companies are required to hold eligible own funds against the SCR and MCR. The capital is divided into three tiers in accordance with the quality of the own funds. The lower tiers of own funds (tier 2 and tier 3) may only represent a certain part of the eligible own funds. Furthermore, the SCR may be covered up to limited amounts with off-balance sheet own funds ( ancillary own funds such as letters of credits or guarantees). The MCR should be covered entirely by on-balance sheet items ( basic own funds ).

**Pillar 2**

Under Pillar 2, insurance and reinsurance companies are required to set up and maintain an adequate and effective system of governance, which includes an appropriate internal organization (such as policies and procedures), a risk governance system and an effective assessment of the risk and solvency position of the company (including a prospective assessment of risks), through the Own Risk and Solvency Assessment (ORSA) process. In general, Solvency II requires insurance and reinsurance companies to maintain an effective system of governance that is proportionate to the nature, scale and complexity of the insurance or reinsurance company. A number of risks that insurance or reinsurance companies face can only be addressed through proper governance structures, rather than quantitative requirements. The management body of the insurance or reinsurance company is ultimately responsible for the maintenance of an effective governance system.

Insurance and reinsurance companies are required to have an adequate and transparent organizational structure, with a clear allocation and appropriate segregation of responsibilities. The system of governance should be subject to regular internal review. Solvency II requires insurance and reinsurance companies to have written policies in a number of areas (such as risk management, internal control, internal audit and outsourcing (where appropriate)). A number of key functions are required to be part of the system of governance (compliance, risk management, the actuarial function and internal audit). The persons responsible for these functions are required to be fit and proper.

The Pillar 2 requirements include specific requirements relating to the risk management system. This should cover at least the following areas: underwriting and reserving, asset-liability matching, investments (in particular derivatives and similar commitments), liquidity and concentration risk management, operational risk management, reinsurance and other risk mitigating techniques. Risk management relating to Solvency II is discussed in further detail in the section risk management on page 86. As part of the risk management system, insurance and reinsurance undertakings are required to undertake an ORSA,

which includes the overall solvency needs of the undertaking, taking into account the risk profile, risk tolerance limits and business strategy, the ongoing compliance with Solvency II capital requirements and rules regarding technical provisions, and the extent to which the risk profile of the undertaking deviates from the assumptions underlying the calculation of the SCR. Solvency II Pillar 2 requirements also include detailed requirements with respect to outsourcing, including intra group outsourcing.

The Supervisory Review Process (SRP), which is part of Pillar 2, allows supervisory authorities to supervise the ongoing compliance of insurance and reinsurance undertakings with Solvency II requirements. Possible enforcement measures include the imposition of capital add-ons (for instance in the event that the risk profile of the undertaking deviates from the SCR calculation or if there are weaknesses in the system of governance), the requirement to submit and execute a recovery plan (in the event of a (threatening) breach of the SCR or MCR), and ultimately the revocation of an insurance or reinsurance license (to the extent the measures relate to an EU licensed insurance or reinsurance undertaking and not to the group as a whole, which does not have a license).

### **Pillar 3**

Solvency II introduces new and more detailed reporting and disclosure requirements than formerly prescribed under the Solvency I framework. These requirements include non-public supervisory reporting on a quarterly and annual basis through regular supervisory reports (RSR), complemented by detailed quantitative reporting templates (QRTs) containing detailed financial data. In addition, it is a requirement to publish a Solvency and Financial Condition Report (SFCR) on an annual basis.

### **Group supervision**

Solvency II not only imposes regulatory requirements on individual EU insurance and reinsurance undertakings; many of the requirements that apply to the individual insurance and reinsurance undertakings apply, with the necessary modifications, at group level. These requirements include group solvency requirements, group reporting and disclosure requirements, and requirements regarding the system of governance, risk management and internal control framework at group level. The group requirements do not include an MCR. Solvency II does however require groups to maintain eligible own funds, at least equal to a floor, as further defined in the Solvency II rules (the absolute floor of the group solvency), which can be considered to be an MCR at group level. Although entities that are not subject to solo supervision under Solvency II (such as entities in other financial sectors, non-financial entities, and regulated and non-regulated entities in third countries) are not directly subject to Solvency II requirements, these entities may be affected indirectly by the Solvency II group requirements. Entities in other financial sectors are, in most cases, taken into account in the group solvency calculation, applying the capital requirements of that specific financial sector (such as Basel III requirements for banks and certain investment firms) and using the deduction and



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aggregation method for inclusion of these entities in the group calculation (as opposed to the accounting consolidation method, which is the default method under Solvency II). However, subject to certain conditions, entities in other financial sectors may be included in accordance with the accounting consolidation method. In particular, this may be the case where the group supervisor (DNB) is satisfied as to the level of integrated management and internal control regarding these entities. Furthermore, DNB may require groups to deduct any participation from the own funds eligible for the Group Solvency ratio. As required by DNB, Aegon deducts its participation in Aegon Bank NV from Aegon's group solvency.

As referred to in the capital and liquidity management section, Aegon uses a combination of the two aggregation methods defined within the Solvency II framework to calculate the Group Solvency ratio, the Accounting Consolidation method and the Deduction and Aggregation method. Aegon applies the Accounting Consolidation method as the default method. However, for insurance entities domiciled outside the EEA for which provisional or full equivalence applies, such as the United States, Aegon uses the Deduction and Aggregation method, with local regulatory requirements to bring these into the Group Solvency position. US insurance and reinsurance entities are included in Aegon's group solvency calculation in accordance with local US (RBC) requirements. Aegon uses 250% of the local RBC Company Action Level (CAL) as the SCR equivalent. The RBC and CAL are both described in more detail in capital and liquidity section. The classification or tiering of Aegon's capital is based on distinct tier limits for the part of the group covered by Accounting Consolidation Method (where tier limits are based on the SCR of the consolidated part of the group, i.e. the consolidated group SCR) and for the part of the group covered by the Deduction and Aggregation Method. If a prudential regime of an equivalent or provisionally equivalent third country (such the regulatory regimes in the United States) does not categorize own funds into tiers or defines tiers which are significantly different from those established under the Solvency II Directive, then, in line with EIOPA's opinion of January 27, 2016 (EIOPA-BoS-16-008), the own funds brought in by the Deduction and Aggregation Method are allocated to tiers according to the principles laid down in Articles 87 to 99 of the Solvency II Directive for each individual third-country insurance undertaking. Entities belonging to other financial sectors are usually included in the Group Solvency Calculation using prudential requirements applicable to that specific sector and using the Deduction and Aggregation Method.

Solvency II group supervision is exercised by a combination of the supervisory authorities of the local insurance and reinsurance entities and the group supervisor, which in Aegon's case is DNB. An important role in the cooperation between the supervisory authorities in the context of group supervision is played by the college of supervisors, in which the local and group supervisors are represented. This college is chaired by the group supervisor.

**Financial conglomerate supervision**

Since the beginning of October 2009, Aegon has been subject to supplemental group supervision by DNB in accordance with the requirements of the EU's Financial Conglomerate Directive. Supplemental group supervision pursuant to the Financial Conglomerate Directive includes supplementary capital adequacy requirements for financial conglomerates and supplementary supervision on risk concentrations and intra-group transactions in the financial conglomerate.

**G-SII designation**

On November 3, 2015, Aegon was first designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). The FSB reviews the G-SII designation annually, and Aegon continues to be designated at the time of publication of this annual report.

As a result of the G-SII designation, Aegon is subject to an additional layer of direct supervision at group level. Aegon has put a specific G-SII governance structure in place to ensure the G-SII requirements are met. Within 12 months of a G-SII designation, G-SIIs are required to develop a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan. In accordance with these requirements, Aegon submitted plans to DNB, and to the G-SII crisis management group that was established for Aegon. These authorities are required: to establish a crisis management group (within 6 months of G-SII designation); to enter into a cross-border cooperation agreement; to develop a resolution plan based on a resolution strategy (within 18 months); and to undertake a resolvability assessment (within 24 months). Aegon has completed this exercise.

As of 2016, G-SIIs have calculated and reported a Basic Capital Requirement (BCR) and Higher Loss Absorbing Capacity (HLA) on a confidential basis pursuant to IAIS guidelines. Furthermore, the IAIS is, at the time of publication of Aegon's Annual Report 2016, consulting on an International Capital Standard (ICS), with the plan being to adopt ICS Version 1.0 for confidential reporting in mid-2017.

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### **104 Governance [Report of the Supervisory Board](#) [Report of the Supervisory Board](#)**

[The Supervisory Board is entrusted with supervising and advising the Executive Board on management of the Company, and overseeing Aegon's strategy and the general course of its businesses.](#)

#### **[Oversight and advice](#)**

The Supervisory Board is a separate corporate body, independent of the Executive Board, consisting of eight members on December 31, 2016. For further details on its individual members, please see pages 111 and 112. The Supervisory Board is charged with the supervision of the Executive Board, of the general course of affairs of the Company, and of its businesses. In performing their duties, members of the Supervisory Board are guided by the interests of Aegon and the Company's stakeholders.

The duties of the Supervisory Board with regard to the activities of members of the Executive Board are published in the Supervisory Board Charter, which is published on Aegon's corporate website, [aegon.com](#). The Supervisory Board makes recommendations to the General Meeting of Shareholders concerning all appointments and reappointments to, and dismissals from, both the Executive Board and the Supervisory Board.

In addition, the Supervisory Board determines the remuneration of individual members of the Executive Board in line with the Remuneration Policy adopted at the Company's General Meeting of Shareholders. Overall accountability for Aegon's remuneration governance also resides with the Supervisory Board, which is advised by its Remuneration Committee. This includes the responsibility for designing, approving and maintaining the Aegon Group Global Remuneration Framework, including the remuneration policies for the Executive Board, Identified Staff, and for staff in Control Functions.

#### **[Corporate governance](#)**

Details of Aegon's corporate governance structure and a summary of how the Company complies with the Dutch Corporate Governance Code and other relevant Codes and Regulations can be found on pages 120 and 123 of this Annual Report and in the Corporate Governance Statement published on Aegon's corporate website, [aegon.com](#).

#### **[Composition of the Supervisory Board and](#)**

#### **[Executive Board](#)**

#### **[Supervisory Board](#)**

The composition of the Board is discussed regularly in Board meetings and in particular by the Nomination and Governance Committee. An overview of the composition of the Supervisory Board in 2016 can be found on pages 111 and 112. All members of the Supervisory Board are considered independent under the terms of the Dutch Corporate Governance Code.

There were a number of changes to the Supervisory Board in 2016. Irv Bailey reached the end of his third and final term, and resigned as a member of the Board on May 20, 2016. On May 20, 2016, shareholders approved the reappointment of Rob Routs, Ben van der Veer and Dirk Verbeek to the Board for another term of four years. In

addition, Shemaya Levy will step down from the Supervisory Board in May 2017, at the end of his third and final term. The Board benefitted greatly from Irv Bailey and Shemaya Levy's knowledge and experience and thanks them for their contributions. Given the resignation of Irv Bailey and Shemaya Levy, the Supervisory Board intends to propose two new members to the Supervisory Board for appointment to the Annual General Meeting of Shareholders on May 19, 2017.

### **Executive Board**

In 2016, the Executive Board consisted of two members, Alex Wynaendts, Chief Executive Officer (CEO), and Darryl Button, Chief Financial Officer (CFO). Darryl Button's resignation was announced on September 6, 2016, and was effective as of December 1, 2016. The Supervisory Board is grateful for his contribution to Aegon during his seventeen years at the Company, especially in his role as CFO and as a member of the Executive Board. The Supervisory Board discussed the selection and appointment of a new CFO. The proposal to appoint Matt Rider as CFO will be put on the agenda of the Annual General Meeting of Shareholders on May 19, 2017.

In compliance with the Dutch Corporate Governance Code, members of the Executive Board are appointed by shareholders for a term of four years, with the option of reappointment for additional four-year terms. The appointment schedule and other information about members of the Executive Board are available on Aegon's corporate website, [aegon.com](http://aegon.com).

### **Board meetings**

#### **Attendance**

In 2016, the Supervisory Board had eight regular (face-to-face) meetings: four related to the quarterly results, one to the annual report, two to strategy, one to the budget and Medium Term Plan. In addition, there were three conference calls, two of which were updates in between the face-to-face meetings. Supervisory Board Committee meetings were usually held the day before the meetings of the full Supervisory Board. All regular board meetings were attended by all board members, except for one Supervisory Board conference call, which was not attended by Corien Wortmann-Kool.

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All committee meetings were attended by all committee members, except for one risk committee that Dona Young was unable to

attend. An overview of Supervisory Board members' attendance by meeting is provided in the table below.

Name	Regular SB meeting	SB conference call	Audit Committee	Risk Committee	Remuneration Committee	Nomination & Governance Committee	Combined Audit & Risk Committee
Rob Routs	8/8	3/3	-	-	6/6	6/6	1/1
Irv Bailey <sup>1)</sup>	3/3	2/2	3/3	-	3/3	-	-
Bob Dineen	8/8	3/3	6/6	4/4	-	-	1/1
Shemaya Levy	8/8	3/3	-	4/4	-	6/6	1/1
Ben Noteboom	8/8	3/3	6/6	-	6/6	-	1/1
Ben van der Veer	8/8	3/3	6/6	-	-	6/6	1/1
Dick Verbeek	8/8	3/3	6/6	4/4	-	6/6	1/1
Corien Wortmann-Kool	8/8	2/3	-	4/4	6/6	-	1/1
Dona Young	8/8	3/3	6/6	3/4	-	-	1/1

<sup>1</sup> Where a Supervisory Board member retired from the Supervisory Board, stepped down from a Committee or was appointed throughout the year, only meetings during his / her tenure are taken into account.

Members of the Executive Board and Management Board, including the members that were added to the Management Board in 2016, were present at most of the Supervisory Board meetings held in 2016. At the request of the Supervisory Board, other Company executives also attended the meetings to provide reports and updates on specific topics. Representatives from Aegon's external auditor PwC attended the March 2016 Supervisory Board meeting on Aegon's annual report. PwC also attended all 2016 Audit Committee meetings, except for the October meeting in the United States. Regular Board meetings were preceded or followed by meetings attended by the members of the Supervisory Board as well as by the CEO. Furthermore, the Supervisory Board held meetings without the presence of Executive Board or Management Board members.

**Highlights and activities**

Key topics discussed during the 2016 Supervisory Board meetings were Aegon's quarterly results and (annual) reporting, Aegon's strategy, acquisitions and divestments and human resources items.

Quarterly results were discussed on the basis of feedback from the Audit Committee. The full-year results reported in the Annual Report were discussed in the March 2017 meeting in the presence of the external auditor PwC. At the Supervisory Board meeting in December, the budget for 2017 was approved and the Medium Term Plan was discussed.

After approving the corporate strategy in December 2015, the Supervisory Board closely monitored its execution and any opportunities to further enhance it where necessary. Plans and projects were discussed during executive sessions and in regular

meetings. The strategic focus for all operating segments was discussed. Furthermore, the rationale to combine the activities in The Netherlands, Central & Eastern Europe and Spain & Portugal into Aegon Continental Europe was discussed and approved in December 2016. Digitization and cultural transformation of the business were additional important strategic priorities that were discussed during the Supervisory Board meetings.

Acquisitions and divestments were discussed in the context of the strategy. The Supervisory Board supported the active management of the business portfolio with add-on acquisitions, the sale of underperforming businesses and the disposals of entities no longer consistent with the strategy. While acquisitions and divestments of EUR 50 million or more require Supervisory Board approval, smaller add-ons and divestments were also discussed. During the year, the Board discussed various M&A transactions, including the disposal of the own annuity portfolio in the UK, the acquisition of BlackRock's UK Defined Contribution platform and administration business, the acquisition of Cofunds in the UK, and the disposal of the commercial line non-life activities in The Netherlands.

In recognition of the importance of succession planning and talent management, the Board received updates from Aegon's Global Head Human Resources on progress made towards achieving the objectives of the talent agenda: attracting new staff with a wide range of different skills and experience; identifying sufficiently qualified succession candidates; and strengthening the talent pipeline for future succession. The Board also received and discussed the results of the annual global employee survey.

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In 2016, Supervisory Board discussions included the following topics:

- Strategy, including Aegon's sustainability program and business reviews;
- Acquisitions, divestments and the strategic direction of businesses;
- Executive Board and senior management succession planning;
- Executive remuneration;
- Governance and composition of the Supervisory Board, including the Board's effectiveness;
- Technological developments and the application of these to enhance customer centricity;
- Human resources, including talent development, results of the global employee survey and cultural change;
- Annual and quarterly results, dividends and the Company's Medium Term Plan, including the 2017 budget, capital and funding plan;
- Capital generation and Solvency II capital position;
- Enterprise risk management;
- Investor relations;
- Legal, regulatory and compliance issues, including Aegon's engagement with regulators and the governance of global functions within Aegon;
- Tax policy; and
- Technology, including the technology strategy.

**Results and budget**

In February 2016, the Supervisory Board convened to discuss the fourth quarter 2015 results. In March 2016, the Supervisory Board reviewed and adopted Aegon's Annual Report, the Consolidated Financial Statements of Aegon N.V., the Financial Statements of Aegon N.V., and the annual review of 2015. In May, August and November, the Supervisory Board reviewed Aegon's first, second and third quarter 2016 results respectively.

In December 2016, the Supervisory Board and Management Board reviewed the Company's Medium Term Plan, including the budget and capital plan for 2017. The Boards took note of the uncertainties and challenges in the coming years as described in the Plan. These included, among others: increased regulatory requirements, low interest rates, market volatility, digital developments and the changing distribution landscape. The Board discussed Aegon's free cash flow and capital projections, together with the continued focus on cost efficiency. The Plan provides for a continuation of investments in digital capabilities to increase customer connectivity. The Supervisory Board supported the Plan and approved the budget for 2017. The Board also approved the 2017 funding plan and authorized the Executive Board to execute on the funding plan in 2017.

**Legal, compliance and regulatory affairs**

In 2016, the Supervisory Board and the Audit Committee discussed a number of compliance, regulatory and legal topics relating to the Americas, Europe, Asia, and Asset Management with management, the General Counsel, the Global Head of Regulatory Compliance and the Global Head of Operational and

Conduct Risk Management. In particular, the Board discussed the consequences and actions resulting from being designated as a Global Systematically Important Insurer (G-SII). An overview of the topics discussed in the field of Risk Management can be found in the Audit Committee and Risk Committee sections below. Furthermore, the

Supervisory Board discussed the appointment of members of the Management and Supervisory Board to important outside board positions where applicable. All members of the Supervisory Board and Management Board confided with the Dutch financial sector oath.

The Chairmen of the Supervisory Board, Audit and Risk Committees visited the group regulator (Dutch Central Bank, DNB) in the first half of 2016 for their annual meeting to discuss issues of strategy, risk management and compliance. In addition, in the second half of 2016 the full Supervisory Board visited DNB, following an invitation from them.

### **Educational sessions and Board review**

The Board and its Committees received updates and presentations on topics ranging from developments in acquisitions and divestments, corporate governance, and remuneration regulations for the insurance sector, to sustainability and technology. In addition to these updates and presentations from the Company, the members of the Supervisory Board gathered general information on industry developments by participating in networks, reading independent reports and sharing knowledge with other board members within and outside Aegon. The Board visited local offices and employees in Spain and the US and was furthermore in particular informed on the strategic direction of Aegon's activities in Spain and Asset Management. In addition, the Board was updated on the developments around IFRS 9 and IFRS 17. The Audit Committee held a meeting dedicated to a detailed discussion on Aegon's business in the United States, Transamerica.

The Supervisory Board undertakes a Board review on an annual basis, and an external assessment takes place at least once every three years. In 2015, an external assessment of the Supervisory Board was conducted in which each member of the Board was interviewed on the basis of a completed questionnaire. This 2015 review assessed the collective performance and effectiveness of the Board and its Committees, and the performance of the Chairman. The review addressed the composition and profile of the Board, the meeting processes and procedures, the dynamics and communication in the Board, and the Board's key areas of supervision. In the beginning of 2016, the Supervisory Board met to review and discuss the results of the 2015 external assessment in the absence of management. The Board agreed that it had continued to make progress, and that it functioned well and fulfilled its duties and responsibilities in a satisfactory way. In the same meeting, the Board listed the priorities and follow-up for the Board to address in 2016. At the end of 2016, the Board made a self-assessment on the basis of a questionnaire that addressed the same topics as in 2015. In addition to this self-assessment, an internal evaluation of the cooperation and communication between the Supervisory Board and Management Board also took place in 2016.



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The performance of the members of the Executive Board was discussed regularly during 2016 and at a dedicated meeting of the Nomination and Governance Committee in December. The Supervisory Board reviewed the performance of individual members of the Management Board over the preceding calendar year.

**Supervisory Board Committees**

The Supervisory Board has four Committees that discuss specific issues in depth and prepare items about which the full Board makes decisions. The Committees report verbally about their discussions to the full Supervisory Board at Supervisory Board meetings. Supervisory Board members receive all minutes of the Committee meetings. Committee meetings are open to all members of the Board, regardless of membership of the Committees. All Committee reports have been prepared by the respective Committees and were approved by the Supervisory Board. These provide an overview of the responsibilities and activities of the Committees.

The four Committees are the:

Audit Committee;  
Risk Committee;  
Nomination and Governance Committee; and  
Remuneration Committee.

**The Audit Committee****Composition**

On December 31, 2016, the composition of the Audit Committee was as follows:

Ben van der Veer (chair)  
Robert W. Dineen  
Ben J. Noteboom  
Dirk P.M. Verbeek  
Dona D. Young

The members of the Audit Committee meet all relevant independence and experience requirements of financial administration and accounting for listed companies.

The Committee confirmed that all of its members qualified as independent according to Rule 10A-3 of the SEC, and it also confirmed that Ben van der Veer qualifies as a financial expert according to the terms and conditions of the Dutch Corporate Governance Code and the Sarbanes Oxley Act in the United States.

**Role and responsibilities**

As Aegon has both an Audit Committee and a Risk Committee, the risk management responsibilities stated in the Dutch Corporate Governance Code are assigned to the Risk Committee. With regard to the oversight of the operation of the risk management framework and risk control systems, including supervising the enforcement of relevant legislation and regulations, the Audit Committee operates in close coordination with the Risk Committee as

established by the Board. Certain committee members partake in both committees and a combined meeting of the Audit and Risk Committees is scheduled on an annual basis.

The main role and responsibilities of the Audit Committee are to assist and advise the Supervisory Board in fulfilling its oversight responsibilities regarding:

The integrity of the consolidated interim and full-year financial statements and financial reporting processes;  
Internal control systems and the effectiveness of the internal audit process; and

The performance of the external auditors and the effectiveness of the external audit process, including monitoring the independence and objectivity of PwC.

The Audit Committee reports to the Supervisory Board on its activities, identifying any matters about which it considers action or improvements are needed, and making recommendations as to the steps to be taken. For more information about the functioning of the Audit Committee, please see the Audit Committee Charter on [aegon.com](http://aegon.com).

### **Committee meetings**

In 2016, the Audit Committee held seven meetings including conference calls, one of which was a combined meeting with the Risk Committee of the Supervisory Board. In October 2016, a separate meeting took place in the US dedicated to Aegon's US business. Topics for discussion included the operational readiness for the fiduciary rule of the Department of Labor, organizational enhancements, hedging, captives and a business overview including capital and earnings analyses, among others. The Audit Committee meetings were attended by the members of the Audit Committee, Aegon's Chief Financial Officer, Head of Corporate Financial Center, Chief Risk Officer, internal auditor and partners of PwC, Aegon's external auditor

Members of Aegon's Group Risk, Group Legal, Investor Relations, Tax, Actuarial and Business departments regularly attended Audit Committee meetings. Additional sessions were held with internal and external auditors at the end of Audit Committee meetings without members of the Executive Board present.

1. Except for the October meeting in the US, which was not attended by PwC.

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**Financial Reporting**

In discharging their responsibilities in respect of the 2016 interim and full year financial statements, the Audit Committee:

- Reviewed and discussed the management letter and follow up actions with PwC, the Executive and the Management Board;
- Discussed PwC's quarterly reports leading to a review opinion on the interim financial statements;
- Received presentations on various topics by local business unit managers and chief financial officers; and
- Reviewed and discussed areas of significant judgments in the preparation of the financial statements, including, in particular: Solvency II, investment valuation and impairments, economic and actuarial assumption setting, and model validations.

The Audit Committee received detailed written and verbal reports from the external auditors on these matters. The Audit Committee was satisfied with the explanations provided and conclusions reached. Recurring items on the Audit Committee agenda in 2016 were Solvency II developments and controls.

**Risk management and internal controls**

With respect to their oversight of accounting risk management and internal controls (provided they did not pertain to the work and responsibilities of the Risk Committee) the Audit Committee:

- Reviewed and approved the external audit plan for 2016 and monitored execution, including progress in respect of recommendations made;
- Discussed quarterly updates on the activities of the internal audit function, together with details of progress on internal audits with the internal auditor. Areas of focus in 2016 included information security, control excellence progress, Solvency II and the remediation of outstanding issues;
- Tested and reviewed the internal control framework, amongst others in relation to the Sarbanes Oxley Act; and
- Discussed the internal control statement with the Executive Board.

In addition, the Committee reviewed quarterly legal and compliance updates.

**External audit effectiveness**

The Audit Committee discussed and approved the external auditor's engagement letter and the audit plan for 2016. Aegon has well established policies on audit effectiveness and independence of auditors that set out, among other things:

- The review and evaluation of the external auditor and the lead partner of the external audit team on at least an annual basis;
- Non-audit services performed by the external auditor;
- Rotations of external auditor and lead partner as required by law; and
- Discussion about planning and staffing of the external audit activities.

For more information about the policies relating to the effectiveness and independence of the external auditor, please see Annex A, B and C of the Audit Committee Charter, as revised in August 2015, on Aegon's corporate website, [aegon.com](http://aegon.com).

## The Risk Committee

### Composition

On December 31, 2016, the composition of the Risk Committee was as follows:

Shemaya Levy (chair)  
Robert W. Dineen  
Dirk P.M. Verbeek  
Corien M. Wortmann-Kool  
Dona D. Young

### Role and responsibilities

Aegon has both an Audit Committee and a Risk Committee. The risk management responsibilities as mentioned in the Dutch Corporate Governance Code are allocated to the Risk Committee.

The main role and responsibilities of the Risk Committee are to assist and advise the Supervisory Board in fulfilling its oversight responsibilities regarding the effective operation and appropriateness of the Enterprise Risk Management (ERM) framework and internal control systems of Aegon N.V. and its subsidiaries and affiliates that comprise the Aegon Group. This includes:

Risk strategy, risk tolerance and risk governance;  
Product development and pricing;  
Risk assessment;  
Risk responses and internal control effectiveness;  
Risk monitoring; and  
Risk reporting.

Furthermore, the Risk Committee regularly reviews risk exposures as they relate to capital, earnings and compliance with risk policies. The Company's risk management is an important topic for the Supervisory Board.

For more information about the functioning of the Risk Committee, please see the Risk Committee Charter on [aegon.com](http://aegon.com).

### Committee meetings

The Risk Committee works closely together with the Audit Committee and has an annual combined meeting, which was this year held in December. The focus during this combined meeting was on IFRS 9 and IFRS 17, evaluation of internal controls, Solvency II internal models, the risk priority plan and the model validation plan for 2017. In addition, discussions also included information technology security and investments.

The Risk Committee convened five times in 2016, including the combined meeting with the Audit Committee. The Company's Chief Risk Officer and the members of Aegon's Executive Board attended all meetings.

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Recurring items on the Risk Committee agenda in 2016 were risk exposure information and risk policy compliance monitoring provided through the quarterly risk dashboard covering all material group level risks. Further, the Risk Committee reviewed the annual refresh of the risk strategy and resulting changes in risk tolerances and Group risk limits, key risk management initiatives to deliver on the strategy, the risk governance structure and risk competencies of the Company. The Risk Committee also discussed several regulatory topics on a regular basis, including the DNB Focus report, the Group ORSA report and the consequences and actions following the designation of Aegon as a G-SII in November 2015.

In addition, the Risk Committee dedicated time to wider developments in the geo-political environment and financial markets in 2016, including possible consequences as a result of the outcome of the referendum on EU membership in the United Kingdom and the presidential elections in the United States.

**The Nomination and Governance Committee****Composition**

On December 31, 2016, the composition of the Nomination and Governance Committee was as follows:

Robert J. Routs (chair)  
Shemaya Levy  
Ben van der Veer  
Dirk P.M. Verbeek

**Role and responsibilities**

The main role and responsibilities of the Nomination and Governance Committee are to assist and advise the Supervisory Board in fulfilling its responsibilities in the areas of Human Resources Management and Corporate Governance. This includes:

Board member and senior management succession planning;  
Drawing up selection criteria and procedures;  
Advising and proposing on nominations, appointments and reappointments;  
Reviewing and updating board profile and charters for board and committees;  
Discussing the annual global employee survey; and  
Overseeing the corporate governance structure of the Company, compliance with the Dutch Corporate Governance Code and any other applicable corporate governance legislation and regulations.

**Committee meetings**

Aegon's Nomination and Governance Committee had six meetings in 2016. In addition to the committee members, these meetings were attended in whole or in part by the CEO, the Global Head Human Resources and the General Counsel.

**Supervisory Board related activities**

The Nomination and Governance Committee discussed the composition of the Supervisory Board and its Committees and governance topics. The profile of Supervisory Board members, as well as their capabilities in terms of working collectively with other members of the Supervisory Board, was debated by the Committee. Furthermore, the existing and impending vacancies in the Supervisory Board were discussed and a search process for fulfilling those vacancies was commenced. The Supervisory Board intends to propose two new members to the Supervisory Board for appointment to the Annual General Meeting of Shareholders on May 19, 2017.

#### Executive Board related activities

During 2016, the Nomination and Governance Committee reviewed the composition of the Executive Board and Management Board, together with the functioning and effectiveness of the board members, both individually and as a team. In particular the Committee discussed the search process and appointment of a new CFO following the resignation of Darryl Button. The Committee discussed the rationale supporting the proposal to the Annual General Meeting of Shareholders in May 2017 to appoint Matt Rider as Aegon's CFO. The Committee also discussed the extension of the Management Board with the General Counsel, Global Head Human Resources, Chief Technology Officer and Chief Executive Officer Aegon Asset Management.

Acknowledging the importance of good succession planning, the Committee also discussed with the CEO and Aegon's Global Head Human Resources the extent to which sufficient internal candidates are available to fill positions at Executive Board, Management Board and senior management level both in the event of emergency and when positions open up in the future. The CEO also discussed changes in the global senior management team with the Nomination and Governance Committee during the year. The Committee was kept apprised of developments in employee engagement, talent management and international mobility. As in previous years, the Supervisory Board noted that Aegon continued to make progress in order to ensure proper succession planning is in place. The Supervisory Board was pleased with the results of the annual Global Employee Survey, which was conducted in January in 2016. The Committee debated the merits of setting up Aegon Continental Europe, which became operational on January 1, 2017, and also started initial discussions on the developments around the new Dutch Corporate Governance Code, which came into effect on January 1, 2017.

#### Diversity

Enhancing diversity in the Executive, Management and Supervisory Board is an important issue for Aegon. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes diversity into account in view of its aim to have a balanced Executive and Management Board composition.

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The Supervisory Board is aware that its current composition of the Executive and Management Board does not yet meet the balanced composition requirement under Dutch law with regard to gender diversity (at least 30% of the seats should be filled by women and at least 30% by men). Following the appointment of Corien Wortmann-Kool to the Supervisory Board in 2014, the gap with the balanced composition was reduced, and the Supervisory Board currently has two female board members. When identifying candidates for open positions in the Executive, Management and Supervisory Board, the Board actively searches for female candidates. It also instructs external search firms to present female candidates. While this has had a positive effect, the requirement has not yet been met.

#### **[The Remuneration Committee](#)**

##### [Composition](#)

On December 31, 2016, the composition of the Remuneration Committee was as follows:

Ben J. Noteboom (chair)  
 Robert J. Routs  
 Corien M. Wortmann-Kool

##### [Role and responsibilities](#)

The main role and responsibilities of the Remuneration Committee are to advise the Supervisory Board and prepare decisions to be taken by the Board. The Committee is designated to safeguard sound remuneration policies and practices within the Aegon Group by overseeing the development and execution of these policies and practices. This includes:

- Reviewing the Aegon Group Global Remuneration Framework and making recommendations on the outcomes;
- Preparing recommendations regarding variable compensation both at the beginning and after the end of the performance year;
- Overseeing the remuneration of the Executive Board, Identified Staff and Group Control functions; and
- Preparing the information provided to shareholders on remuneration policies and practices, including the Remuneration Report.

##### [Committee meetings](#)

The Remuneration Committee had six meetings in 2016. In addition to the committee members, these meetings were attended in whole or in part by the CEO, the Global Head Human Resources and the General Counsel.

The Committee discussed the effects of regulations introduced by the European Union (CRD IV), together with the Guidelines on Remuneration Policies and Practices issued by the European Banking Authority. Furthermore, the Committee discussed the remuneration of the Executive Board following the resignation of Darryl Button and the intended appointment of Matt Rider.

In 2016, the Remuneration Committee oversaw the further application, implementation and approval of Aegon's Group Global Remuneration Framework and the various policies and procedures related to it, including the

Remuneration Policy for Identified Staff. This included:

- Setting the 2016 performance indicators and targets for remuneration purposes;
- Setting the 2017 performance indicators for remuneration purposes;
- Allocating variable compensation for 2015;
- The scenario analysis of payout levels under the Executive Board Remuneration Policy; and
- Reviewing and/or approving the ex-ante assessments and ex-post assessments, any exemption requests under the remuneration policies, and changes to the list of Identified Staff.

Furthermore, the Committee discussed the results of the audit by the Internal Audit Department on the application of the Remuneration Framework.

## **Annual Accounts**

This Annual Report includes the Annual Accounts for 2016, which were prepared by the Executive Board and discussed by both the Audit Committee and the Supervisory Board. The Annual Accounts are signed by the members of the Executive Board and the Supervisory Board, and are on the agenda of the 2017 Annual General Meeting of Shareholders. The Supervisory Board recommends that shareholders adopt the Annual Accounts.

## **Acknowledgement**

The members of the Supervisory Board are very grateful for the work undertaken by Executive and Management Boards in pursuit of Aegon's purpose of helping people achieve a lifetime of financial security.

We would like to thank Aegon's employees for all they do to serve Aegon's millions of customers, and furthermore we would like to express our thanks to Aegon's business partners and loyal customers for their continued confidence in the Company.

Finally, the Board wishes to thank all those who invest in Aegon for their continued trust and confidence.

The Hague, the Netherlands, March 22, 2017.

**Robert J. Routs**

Chairman of the Supervisory Board of Aegon N.V.

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Governance **Members of the Supervisory Board** 111

**Members of the Supervisory Board**

**Robert J. Routs (1946, Dutch)**

Chairman of the Supervisory Board

Chairman of the Nomination and Governance Committee

Member of the Remuneration Committee

Robert J. Routs is a former Executive Director for Downstream at the energy company Royal Dutch Shell. He was appointed to Aegon's Supervisory Board in April 2008 and became Chairman in April 2010. Mr. Routs was reappointed as a member of the Supervisory Board during the 2016 Annual General Meeting of Shareholders and his third and final term ends in 2020. Mr. Routs

is chairman of the Supervisory Board Nomination and Governance Committee and a member of the Supervisory Board Remuneration Committee.

Mr. Routs is also chairman of the Supervisory Board of Royal DSM N.V. and sits on the Board of Directors of ATCO Ltd., A.P. Møller-Mærsk A/S and AECOM Technology Corporation. He is a former non-executive director at UPM and former vice chairman of the Supervisory Board of Royal KPN N.V. He has held no other board memberships in the past five years.

**Irving W. Bailey II (1941, American)**

Vice Chairman of the Supervisory Board

Member of the Audit Committee

Member of the Remuneration Committee

Irving W. Bailey II is retired Chairman and Chief Executive Officer of Providian Corp., a former Managing Director of Chrysalis

Ventures, and former Chairman of the Board of Directors of Aegon USA Inc. He was first appointed to Aegon's Supervisory Board in 2004. His current and final term will end in 2016. Mr. Bailey is also a senior advisor to Chrysalis Ventures Inc. (not listed)<sup>1</sup>.

**Robert W. Dineen (1949, American)**

Member of the Audit Committee

Member of the Risk Committee

Robert W. Dineen was Vice Chairman of Lincoln Financial Network (LFN) and a member of the Senior Management Committee of Lincoln Financial Group (LFG), before retiring in 2013. Before joining Lincoln Financial Group, Mr. Dineen was Senior Vice President and head of Merrill Lynch's Managed Asset Group. He was appointed to Aegon's Supervisory Board in May 2014 and

his current term ends in 2018. He is a member of the Supervisory Board Audit Committee and the Supervisory Board Risk Committee.

Mr. Dineen is also a member of the Board of Aretec Inc (not listed, located in the US) and was a member of Lincoln New York Life Company Board. Mr. Dineen has held no other board memberships in the past five years.

**Shemaya Levy (1947, French)**

Vice Chairman of the Supervisory Board

Chairman of the Risk Committee

Member of the Nomination and Governance Committee Shemaya Levy is retired Executive Vice President and Chief Financial Officer of the Renault Group. He was appointed to Aegon's Supervisory Board in 2005 and his current and final term ends in 2017. He is chairman of the Supervisory Board Risk Committee and a member of the Supervisory Board Nomination and Governance Committee.

Mr. Levy is also vice chairman of the Supervisory Board of TNT Express N.V. and member of the Board of Directors of PKC Group Oyj. He is a former non-executive director of the Safran Group, member of the Board of Directors of Renault Spain, Nissan Motor Company and former member of the Supervisory Board of Segula Technologies Group S.A. (not listed). He has held no other board memberships in the past five years.

**Ben J. Noteboom (1958, Dutch)**

Chairman of the Remuneration Committee

Member of the Audit Committee

Ben J. Noteboom worked for Randstad Holding N.V. from 1993 until 2014, where he was appointed member of the Executive Committee in 2001 and became CEO in 2003. Before joining Randstad, Mr. Noteboom worked for Dow Chemical in several international management functions between 1984 and 1993. He started his career in 1982 at Zurel as management assistant. He was appointed to Aegon's Supervisory Board in May 2015 and

his current term ends in 2019. He is chairman of the Supervisory Board Remuneration Committee and a member of the Supervisory Board Audit Committee.

Mr. Noteboom is also a member of the Supervisory Board of Ahold Delhaize N.V., Wolters Kluwer N.V. and Vopak N.V. In addition, Mr. Noteboom is a member of the Board of Directors of VUmc Cancer Center Amsterdam. He has held no other board memberships in the past five years.

1. Irving W. Bailey II reached the end of his third and final term, and resigned as a member of the Board on May 20, 2016.

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**Ben van der Veer (1951, Dutch)**

Chairman of the Audit Committee

Member of the Nomination and Governance Committee

Ben van der Veer is former Chairman of the Board of Management of KPMG N.V. Mr. Van der Veer retired from KPMG per September 30, 2008. He was appointed to Aegon's Supervisory Board in October 2008. Mr. van der Veer was re-appointed as a member of the Supervisory Board during the 2016 Annual General Meeting of Shareholders and his third and final term ends in 2020. He is chairman of the Supervisory Board

Audit Committee and a member of the Supervisory Board Nomination and Governance Committee.

Mr. Van der Veer is a member of the Supervisory Board of TomTom N.V. and a non-executive member of the Board of Directors of RELX N.V., RELX PLC and RELX Group PLC. He is also a member of the Supervisory Board of Royal FrieslandCampina N.V. (not listed), and a former member of the Supervisory Board of Royal Imtech N.V. and Siemens Nederland N.V. (not listed). He has held no other board memberships in the past five years.

**Dirk P.M. Verbeek (1950, Dutch)**

Member of the Audit Committee

Member of the Risk Committee

Member of the Nomination and Governance Committee

Dirk P.M. Verbeek is a former Executive Board member and Vice President Emeritus of Aon Group. Mr. Verbeek was appointed to Aegon's Supervisory Board in 2008, and his third and final term ends in 2020 following his reappointment during the 2016 Annual General Meeting of Shareholders. He is a member of the Supervisory Board Audit Committee, the Supervisory Board Risk

Committee and the Supervisory Board Nomination and Governance Committee.

Mr. Verbeek is a member of the Supervisory Board of Aon Groep Nederland B.V. (not listed). Furthermore, he is member of the Advisory Boards of CVC Europe (not listed) and OVG Real Estate (not listed), and member of the INSEAD Dutch Council. Mr. Verbeek was Chairman of the Supervisory Board of Robeco Groep N.V. (not listed) until December 2015. He was also advisor to the President and Chief Executive Officer of Aon Corporation. He has held no other board memberships in the past five years.

**Corien M. Wortmann-Kool (1959, Dutch)**

Member of the Risk Committee

Member of the Remuneration Committee

Corien M. Wortmann-Kool is Chairman of the Board of Stichting Pensioenfonds ABP, the Dutch public sector collective pension fund. Ms. Wortmann-Kool is a former Member of the European Parliament and Vice President on Financial, Economic and Environmental affairs for the EPP Group (European People's Party). She was appointed to Aegon's Supervisory Board in May 2014, and her current term ends in 2018. She is a member

of the Supervisory Board Risk Committee and a member of the Supervisory Board Remuneration Committee.

Ms. Wortmann-Kool is also a member of the Supervisory Board of Het Kadaster (not listed), member of the Centraal Bureau voor de Statistiek, Chairman of the Board of Trustees of Save the Children Netherlands and Vice President of EPP. She was a member of the Supervisory Board of Mercedes-Benz Netherlands (not listed) until 2014. She has held no other board memberships in the past five years.

**Dona D. Young (1954, American)**

Member of the Audit Committee

Member of the Risk Committee

Dona D. Young is an executive/board consultant and retired Chairman, President and Chief Executive Officer of The Phoenix Companies, which was an insurance and asset management company at the time of her tenure. She was appointed to Aegon's Supervisory Board in 2013 and her current term will end in 2017.

She is a member of the Supervisory Board Audit Committee and a member of the Supervisory Board Risk Committee.

Ms. Young is member and Lead Director of the Board of Directors of Foot Locker, Inc. Furthermore, Ms. Young is a member of the Board of Trustees of Save the Children US (not listed). In 2015, Ms. Young was selected to the National Association of Corporate Directors' Directorship 100. She has held no other board memberships in the past five years.

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**Table of Contents****Remuneration Report****Global Remuneration Principles**

The Aegon Group Global Remuneration Principles provide the foundation for remuneration policies and practices throughout Aegon. They are applied regionally and/or locally.

The key pillars of the Aegon Group Remuneration Principles are as follows:

Aegon remuneration is employee-oriented by: fostering a sense of value and appreciation in each individual employee; promoting the short- and long-term interests and well-being of all Aegon staff via fair compensation, pension and/or other benefits; supporting employees' career development; and supporting the (international) mobility of its staff;

Aegon remuneration is performance-related by: establishing a clear link between pay and performance by aligning objectives and target setting with performance evaluation and remuneration; reflecting individual as well as collective performance in line with Aegon's long-term interests; enhancing the transparency and simplicity of Aegon Group remuneration, consistent with the principle of pay for performance; and avoiding any pay for non-performance;

Aegon remuneration is fairness-driven by: promoting fairness and consistency in Aegon's remuneration policies and practices, with remuneration packages that are well-balanced across the different echelons within Aegon and its business units; avoiding any discrimination in Aegon's remuneration structures, including, among others, discrimination based on nationality, race, gender, religion, sexual orientation, and/or cultural beliefs; creating global alignment in the total compensation of all Identified Staff; and aiming at controlled market competitive remuneration, by providing total compensation packages in line with an appropriately established peer group at a regional unit, country and/or functional level; and

Aegon remuneration is risk-prudent by: aligning business objectives with risk management requirements in the target setting practices throughout the Aegon Group; giving an incentive to appropriate risk-taking behavior while discouraging the taking of excessive risks; and protecting the risk alignment effects embedded in the remuneration arrangements of individual staff against any personal strategies or insurance to counter them.

The key pillars outlined above are set out in Aegon's Global Remuneration Framework (GRF). The GRF, which covers all Aegon staff, contains the guiding principles to support sound and effective remuneration policies and practices by ensuring consistency throughout the Aegon Group. The GRF is designed in accordance with relevant rules, guidelines and interpretations, for instance the Decree on Sound Remuneration Policy

(Regeling beheerst beloningsbeleid (Rbb) Wft 2014) from DNB (the Dutch Central Bank), and the 2015 Act on the Remuneration Policy of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen, Wbfo 2015 stb 2015, 45). 2016 has been a year with relatively few changes to the remuneration regulations impacting Aegon. As a result the Aegon remuneration practices and processes have not materially changed compared with the previous performance period.

Aegon's remuneration policies are derived from the GRF, among which is the Remuneration Policy for the Executive Board. These policies define specific terms and conditions for the employment of various groups of staff. All steps in

the remuneration process are governed by the GRF and its underlying policies. In addition, Human Resources, Risk Management, Compliance and Audit are involved in all steps of the process

The regulations concern, among other things, caps on variable compensation that go beyond the maximums suggested by European legislation, and require at least 50% of the performance indicators used for determining variable compensation to be of a non-financial nature. In addition the regulations limit the use of financial retention and severance arrangements. The Wbfo has a provision that makes it possible to apply a variable compensation maximum that is aligned with the European CRD IV compensation ratio (100% of fixed compensation at maximum level). This has been specifically created for all people working for the corporate office of companies with a strong international nature. In 2016, Aegon met the applicable criteria. Although the regular maximum levels of variable compensation apply in the Netherlands, Aegon has offered selected senior staff at its corporate office a maximum variable compensation opportunity in line with CRD IV remuneration ratios.

For compensation of staff outside Europe, the Company obtained shareholder approval at the Annual General Meeting of Shareholders of May 20, 2016, to pay a maximum of 200% of base salary as variable compensation for performance delivered by selected senior staff in positions that, based on local market practice, could exceed the 100% of base salary variable compensation set out in the legislation. The Company's capital is not adversely impacted by the maximum variable compensation that could be paid out.

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In line with the Wbfo, Aegon wishes to disclose the total amount of variable compensation paid in relation to performance year 2016. The total amount of variable compensation paid out in 2016 was EUR 205 million. In 2016, the total annual compensation paid out to 19 people was equal to or higher than EUR 1 million. These people worked for Aegon's Global Corporate Office, Aegon Americas, Aegon United Kingdom, Aegon Asia and Aegon Asset Management.

**Role of Risk Management and Compliance**

Variable compensation may have an impact on risk-taking behaviors and, as such, may undermine effective risk management. This can lead to excessive risk taking, which can have a material impact on the Company's financial soundness. To avoid such undesired effects, both the Risk Management and Compliance functions are involved in the design and execution of remuneration policies and practices.

The GRF includes separate remuneration policies for three specific groups of employees. This is in recognition of the fact that these employees' roles and responsibilities require specific risk mitigating measures and governance processes. These remuneration policies are for: (i) the Executive Board; (ii) material risk takers (Identified Staff); and (iii) Control Staff. Given the rationale for having a separate policy for material risk takers and the risk mitigating measures that are applied to the remuneration of these individuals, Risk Management is involved in deciding which positions are deemed Identified Staff. Furthermore, where exceptions to the policies are requested to reflect local practices or regulations, Risk Management and Compliance are involved in order to ensure such exceptions do not undermine effective risk management and that sufficient mitigating measures are undertaken.

In addition, the Risk Management and Compliance functions, together with the Human Resources and Finance functions, are responsible for the execution of the various measures that ensure the GRF and associated practices are aligned with the defined risk tolerances and behaviors. The risk mitigating measures are taken prior to the payout of compensation to individual employees (regardless of whether the compensation is deferred) as well as after payouts, or allocated but deferred payments (before vesting of these payments) to ensure sustainability of performance, are considered ex-post measures.

Aegon endeavors to seek an appropriate balance of ex-ante and ex-post assessments to ensure effectiveness in both the short- and long-term risk taking behavior of employees.

**General compensation practices**

Aegon has a pay philosophy that is based on total compensation. This means that the aim is for total remuneration for experienced and competent employees to be consistent with those in the markets in which Aegon operates and competes for employees. Total compensation typically consists of base salaries and where in line with local market practices variable compensation. Market survey information from reputable sources is used to provide information on competitive compensation levels and practices.

Variable compensation, if any, is capped at an appropriate level as a percentage of base pay. Variable compensation for senior management is usually paid out in cash and shares over multiple years, and is subject to further conditions being fulfilled. Additional holding periods may apply to shares after they have vested, restricting their sale for



a further one to three years. Variable compensation already paid out may also be retrieved under certain circumstances ( Claw-back ).

In the following sections more detailed information is provided on the compensation practice for the Supervisory Board and the Executive Board.

### **Supervisory Board Remuneration Policy 2016**

Aegon s Remuneration Policy for members of its Supervisory Board is aimed at ensuring fair compensation, and protecting the independence of the Board s members. Terms and conditions for members of the Supervisory Board are part of Aegon s broader Remuneration Policy, and are the responsibility of the Company s Remuneration Committee.

#### **Fees and entitlements**

Members of the Supervisory Board are entitled to the following:

- A base fee for membership of the Supervisory Board. No separate attendance fees are paid to members for attendance at the regular Supervisory Board meetings;

- An attendance fee for each extra Board meeting attended, be it in person or by video and/or telephone conference;

- A committee fee for members on each of the Supervisory Board s Committees;

- An attendance fee for each Committee meeting attended, be it in person or through video and/or telephone conference; and

- An additional fee for attending meetings that require intercontinental travel between the Supervisory Board member s home location and the meeting location.

Each of these fees is a fixed amount. Members of Aegon s Supervisory Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the Company. These measures are designed to ensure the independence of Supervisory Board members and to strengthen the overall effectiveness of Aegon s corporate governance.

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Under the current policy, as approved by shareholders at the Annual General Meeting on May 15, 2013, members of the Supervisory Board are entitled to the following payments:

<b>Base fee for membership of the Supervisory Board</b>	<b>EUR / year</b>
Chairman	80,000
Vice Chairman	50,000
Member	40,000

<b>Fee for membership of a Supervisory Board committee</b>	<b>EUR / year</b>
Chairman of the Audit Committee	13,000
Member of the Audit Committee	8,000
Chairman of other committees	10,000
Member of other committees	5,000

<b>Attendance fees</b>	<b>EUR</b>
Extra Supervisory Board meeting	3,000
Audit Committee	3,000
Other committees	2,000

Information on members of the Supervisory Board and the composition of Aegon's four committees – Audit, Nomination and Governance, Remuneration and Risk – can be found on pages 107-112.

Details on the remuneration of the Supervisory Board over the course of 2016 can be found in the Supervisory Board Remuneration Report 2016 on page 302.

**Executive Board Remuneration in 2016****Executive Board remuneration**

Aegon's Executive Board is remunerated on the basis of the principles described in Aegon's GRF. Aegon's remuneration policy for members of the Executive Board is derived from this framework and sets out terms and conditions for members of the Company's Executive Board.

The Executive Board Remuneration Policy was adopted at the General Meeting of Shareholders on May 12, 2011. The Policy will remain in force until such time as the Supervisory Board proposes changes or amendments. Any material changes in the Executive Board Remuneration Policy will be referred to the General Meeting of Shareholders for adoption.

### **Role of the Remuneration Committee**

The Supervisory Board has overall responsibility for the Company's Remuneration Policies, including the Executive Board Remuneration Policy. Members of the Committee are drawn from the Supervisory Board.

Each year, Aegon's Remuneration Committee reviews Aegon's remuneration policies to ensure they remain in line with prevailing international standards. This review is based partly on information provided by Aegon's external advisor, Towers Watson. The advisor does not, however, advise individual members of the Executive and Supervisory Boards.

The Remuneration Committee may recommend changes to the policies to the Supervisory Board.

### **Review of the Remuneration Policy**

Aegon's Executive Board Remuneration Policy is reviewed every year by the Remuneration Committee. The policy applies to all members of Aegon's Executive Board.

### **Ensuring pay remains competitive**

The Company regularly compares its levels of executive remuneration with those of other comparable companies. Companies included in the peer group are chosen according to the following criteria:

- Industry (preferably life insurance);
- Size (companies with similar number of employees, assets, revenue and market capitalization);
- Geographic scope (preferably the majority of revenues generated outside of the country of origin); and
- Location (companies based in Europe).

The peer group was updated in 2015. It comprises the following fourteen companies: Allianz, Aviva, Axa, CNP Assurances, Generali, Legal & General, Mapfre, Münchener Rückversicherung, NN Group, Old Mutual, Prudential plc., Standard Life, Swiss Re and Zurich Financial Services.

In addition, in order to monitor alignment with the general industry in the Netherlands, a reference group is used. This is comprised of the 12 leading companies listed on Euronext Amsterdam, excluding financial services providers. The Supervisory Board regularly reviews the composition of the two groups in order to ensure that they continue to provide a reliable and suitable basis for comparison.

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#### **Total compensation**

For each member of the Executive Board, Aegon's Supervisory Board determines a maximum total compensation, reflecting the specific roles and responsibilities of the individual. Each year, the Supervisory Board reviews total compensation levels to ensure they remain competitive and provide proper, risk-based incentives to members of Aegon's Executive Board. To ensure Executive Board members are compensated in accordance with the desired market positioning, alignment to the desired market position needs to be addressed over time, in accordance with applicable rules, regulations and codes.

Consistent with the Executive Board Remuneration Policy, the total direct compensation for Executive Board members consists of fixed compensation and variable compensation.

The Supervisory Board conducts regular scenario analyses to determine the long-term effect on the level and structure of compensation granted to members of the Executive Board. The Supervisory Board (Remuneration Committee) discussed and endorsed the 2016 total compensation for the Executive Board. The committee noted, in particular, that the variable compensation (both expressed as opportunity and actual payout levels) for Executive Board members at Aegon is lower than at peer- and other non-financial companies.

#### **Fixed compensation**

It is the responsibility of the Supervisory Board to determine fixed compensation for members of the Executive Board based on their qualifications, experience and expertise.

#### **Variable compensation**

Aegon believes that variable compensation strengthens the commitment of Executive Board members to the Company's objectives, business strategy, risk tolerance and long-term performance. Variable compensation is based on a number of individual and company performance indicators that are linked to these items. The indicators are regularly evaluated by experts in the Company's Finance, Risk Management, Business Control, Audit, Human Resources and Compliance departments to ensure alignment with the Company's objectives, business strategy, risk tolerance and long-term performance remains strong.

Performance is determined by using a mix of financial and non-financial indicators. For the CEO and CFO the mix of individual and company performance measures is 37.5% to 62.5% and 27.5% to 72.5% respectively. The type of performance indicators are selected in accordance with the long-term goals of the Company. The level of the indicators should be challenging but achievable. The targets and levels are agreed by the Supervisory Board.

Performance is assessed by Aegon's Remuneration Committee and validated by the full Supervisory Board. Each year, a one-year target is set for each performance indicator. By paying half of the variable compensation in cash and the other half in shares, together with adding deferral and additional holding periods to the variable compensation that is allocated, Aegon believes that the long-term interests of Executive Board members are aligned with the interests of

Aegon and its stakeholders.

All variable compensation is conditionally granted at the beginning of each performance period. The number of conditionally granted shares is calculated using the value of one Aegon share at the beginning of this period. This value is equal to the volume weighted average price on the Euronext Amsterdam stock exchange for the period December 15 to January 15. After the performance year, the Company assesses the realized performance against the performance indicators and compares the minimum, target and maximum levels of the performance indicators with the realized performance. The amount of conditional variable compensation that can be allocated is then established. Variable compensation is allocated once the accounts for the financial year in question have been adopted by the Company's general meeting of shareholders and after an ex-ante assessment.

The allocated variable compensation consists of equal parts of cash and shares, of which 40% is paid out (or vests) in the year following the performance year, and 60% is deferred to later years. This deferred portion remains conditional until it vests.

The deferred parts vest in equal tranches over a three-year period. After an ex-post assessment, which may lower the vesting parts, these individual parts are paid 50% in cash and 50% in shares. The shares are restricted for a further period of three years (with the exception of shares withheld to cover<sup>1</sup> for the payment of any applicable taxes, social security premiums and possible other deductions by the government due for which the company holds a withholding obligation in connection with the vesting of the shares).

The variable compensation payout can be illustrated by the following example and the table below. For every 1,000 variable compensation that is allocated following the performance period, 400 is paid out/vested in the year following that performance year (N in the following table). This part will be paid 50% in cash (=200) and 50% in shares vesting immediately ( $=200 / 5.128 = 39$  shares). The remaining 600 is deferred and vests according to a pre-defined schedule.

Information on the expenses recognized for variable compensation and the status of awards are provided in note 53 of this report.

<sup>1</sup> For shares allocated in prior years but that vested in 2016 the company did not sell any shares on the market, but kept part of the gross number of these shares in treasury and paid the value of these shares to the participants to cover taxes (under IFRS terms net settlement). The net number of shares was made available (although holding periods apply) to the participants similar as when a sale to cover tax would have taken place.

**Table of Contents****Variable compensation over 2016**

At an aggregated level, payments are made as follows:

50% of base salary if the threshold target is reached. This results in the allocation of EUR 317,370 and 61,889 shares for Mr. Wynaendts and EUR 248,442 and 48,448 shares for Mr. Button;

80% of base salary if the pre-determined performance targets are met. This results in the allocation of EUR 507,791 and 99,023 shares for Mr. Wynaendts and EUR 397,507 and 77,516 shares for Mr. Button;

Up to 100% of base salary if the targets are exceeded. This results in the allocation of EUR 634,739 and 123,779 shares for Mr. Wynaendts and EUR 496,883 and 96,896 shares for Mr. Button.

If at an aggregated level the threshold target is not reached, no variable compensation related to the performance period will be made available.

Objectives	Performance indicator	Maximum % of variable compensation	
		Mr. Wynaendts	Mr. Button
Group financial IFRS based	Group underlying earnings after tax, return on equity	15.0%	15.0%
	Group market consistent value of new business		
	Normalized operational free cash flow		
Group financial risk adjusted based	Group pre-tax return on economic required capital)	17.5%	17.5%
	Objectives measuring corporate responsibility, strategy implementation and sustainability		
Group non financial business indicators	Objectives measuring Aegon's control environment	30.0%	40.0%
Personal objectives		37.5%	27.5%
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Individual basket of strategic and personal objectives related to Aegon's strategy

### **Risk adjustment methodology (ex-ante)**

At the end of the performance period, but prior to allocation of variable compensation, the Supervisory Board assesses whether (downward) modifications are needed. For this purpose, quantitative and qualitative measures at group, regional unit and individual level are taken into account, such as:

- Breaches of laws and regulations;
- Breaches of internal risk policies (including compliance);
- Significant deficiencies or material weaknesses relating to the Sarbanes-Oxley Act; and
- Reputation damage due to risk events.

### **Ex-post assessment and discretionary adjustments**

The Supervisory Board uses its judgment in the assessment of the outcome of strategic/personal targets to ensure that, taken together, they represent a fair reflection of the overall performance of the Board member over the performance period.

In addition, the Supervisory Board applies an ex-post risk assessment to deferred payouts of variable compensation to determine whether allocated (that is, unvested) variable compensation should become unconditional (meaning it vests) or should be adjusted. This ex-post assessment is based on informed judgment by the Supervisory Board, taking into account significant and exceptional circumstances that are not (sufficiently) reflected in the initially applied performance indicators.

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### **118 Governance [Remuneration Report](#)**

Implementation of this authority is on the basis of criteria such as:

- the outcome of a re-assessment of the performance against the original financial performance indicators;
- a significant downturn in the Company's financial performance;
- evidence of misbehavior or serious error by the participant;
- a significant failure in risk management; and
- significant changes in the Company's economic or regulatory capital base.

The Supervisory Board asks the Remuneration Committee to review these criteria in detail prior to each vesting and to document its findings. Based on this analysis, the Committee may then put forward a proposal to the Supervisory Board to adjust unvested variable compensation. Deferred variable compensation may only be adjusted downwards. Ex-post, risk-based assessments concern deferred variable compensation, not fixed compensation.

#### **[Circuit breaker](#)**

For each performance indicator, variable compensation is only paid if the threshold level set for that performance indicator is reached.

#### **[Claw-back provision](#)**

Aegon's Supervisory Board is obliged to claim back variable compensation that has already been paid out or vested where required based on the regulations that apply from time to time, if variable compensation is based on incorrect data (including non-achievement of performance indicators in hindsight), or in the event of material financial restatements or individual gross misconduct.

#### **[Pension arrangements](#)**

Members of Aegon's Executive Board are offered pension arrangements and retirement benefits. Benefits offered are consistent with Executive Board members' agreements. Details on the pension contributions to the Executive Board over the course of 2016 can be found in the Remuneration of members of the Executive Board on pages 113 and 301.

The arrangements with the members of the Executive Board include retirement provisions that allow benefits to be taken at the end of the term. The retirement arrangements stem from pre executive board membership. Details are not disclosed due to the individual nature of such arrangement.

#### **[Loans](#)**

Aegon does not grant Executive Board members personal loans, guarantees or other such arrangements, unless in the normal course of business and on terms applicable to all employees, and only with the approval of the Company's Supervisory Board.

#### **[Terms of Engagement Agreement](#)**



Members of the Executive Board are appointed for four years, and may then be re-appointed for successive mandates also for a period of four years.

Both Executive Board members have an Engagement Agreement with Aegon N.V., rather than a contract of employment. Until his termination date, Mr. Button continued to be employed by Transamerica Life Insurance while he was seconded on an expatriate assignment to the Netherlands effective till August 1, 2016, which was successively followed by a commuter assignment from that date until the termination date.

Members of the Executive Board may terminate their engagement agreement with a notice period of three months. The Company must give six months notice if it wishes to terminate the agreement of a member of its Executive Board.

The arrangements with current members of the Executive Board contain provisions for severance payments in the event that their agreement is terminated as a result of a merger or takeover. The Supervisory Board has taken appropriate steps to ensure the arrangements of members of the Executive Board are in line with the Executive Board Remuneration Policy.

It is expected that the terms of the engagement agreements will remain largely unchanged during 2017.

### **Executive Board Remuneration Report**

At the end of December 2016, Aegon's Executive Board had one member:

Alex Wynaendts, Chief Executive Officer and Chairman of the Executive Board. Mr. Wynaendts was appointed as a member of the Executive Board in 2003 for four years, and re-appointed in 2007 and 2011. At the General Meeting of Shareholders in 2015, Mr. Wynaendts was re-appointed for an additional four years. Darryl Button, Chief Financial Officer and member of the Executive Board, was appointed as a member of the Executive Board for four years at the Annual General Meeting of Shareholders on May 15, 2013. Mr. Button concluded his tenure<sup>1</sup> with the Company on December 1, 2016.

#### **Fixed compensation**

The fixed compensation of Mr. Wynaendts was increased in 2016 to EUR 1,269,478 to further align his Total compensation towards the desired market position. The fixed compensation of Aegon's CFO remained unchanged in 2016 at USD 1.1 million (EUR 993,766).

<sup>1</sup> Mr. Button has not received any severance payments. Previously allocated but not yet paid out variable compensation for Mr. Button will vest according to the regular and agreed conditions (including customary claw back provisions). As a result of the termination the Dutch government imposes a tax levy. This additional employer wage tax is currently estimated at EUR 1,394.

**Conditional variable compensation awards 2016**

Subject to the adoption of the annual accounts at the General Meeting of Shareholders on May 19, 2017, variable compensation for Executive Board members is set in cash and shares, based on both their individual and the Company's performance. Targets for the performance indicators have been set in line with the agreed variable compensation targets and 2016 company budgets.

Performance as reported on the financial and non-financial Group performance indicators and targets resulted in a performance score of 49.87% (maximum 62.50%) for Mr. Wynaendts and 59.87% (maximum 72.5%) for Mr. Button. The performance on individual (strategic) objectives resulted in a pay-out of 32.38% and 22.00% for Mr. Wynaendts and Mr. Button respectively (maximum 37.50% and 27.50% respectively).

The amounts and number of shares below are reflective of Mr. Button's time with Aegon till December 1, 2016.

Over the performance year 2016, Mr. Wynaendts was awarded EUR 1,044,120 in total conditional variable compensation. Mr. Button was awarded EUR 746,737

Forty percent of variable compensation related to performance year 2016 is payable in 2017. This is split 50/50 in a cash payment and in an allocation of shares.

In 2017, Mr. Wynaendts and Mr. Button are eligible to receive a cash payment of EUR 208,824 and EUR 149,347 respectively.

The number of shares to be made available in 2017 is 40,722 for Mr. Wynaendts and 29,614 for Mr. Button. With regard to vested shares (with the exception of shares withheld to cover for the payment of any applicable taxes, social security premiums and possible other deductions by the government due for which the Company holds a withholding obligation in connection with the Vesting of the Shares), a retention (holding) period of a further three years is applicable before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2016 (60% of the total, which for Mr. Wynaendts equates to EUR 313,236 and 61,083 shares, and for Mr. Button equates to EUR 224,021 and 44,424 shares) is to be paid out in future years, subject to ex-post assessments, which may result in downward adjustments and be subject to meeting additional conditions. In each of the years 2018, 2019 and 2020, 20% of the total variable compensation may be made available. Any payout is split 50/50 in a cash payment and an allocation of shares (vesting). After vesting (with the exception of shares withheld to cover for the payment of any applicable taxes, social security premiums and possible other deductions by the government due for which the Company holds a withholding obligation in connection with the vesting of the shares), a retention (holding) period is applicable for a further three years, before shares are at the disposal of the Executive Board members.

**Impact of ex-ante and ex-post assessment on attribution of variable compensation**

No variable compensation from previous performance years payable in 2016 has been adjusted downwards in 2016.

No circumstances have been identified to lower payout of the deferred payment from prior performance years that vest in 2017 (the so called ex-post assessment ) or to lower the payout of the up-front payment of the 2016 performance year variable compensation that vests in 2017 (the so called ex-ante assessment ).

### **Future changes**

No material changes to the executive board remuneration policy are foreseen for 2017. Compensation for individuals in the financial sector, in particular for those that materially influence the risk profile of the organization, does however continue to be a focus of regulatory attention. Aegon will ensure compliance if and when new regulations are approved. Any such regulations may require further deferral and the extension of holding periods, which Aegon will apply to new allocations of variable compensation going forward.

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### **120 Governance [Corporate governance](#)**

#### **[Corporate governance](#)**

[Aegon is incorporated and based in the Netherlands. As a company established in the Netherlands, Aegon must comply with Dutch law and is subject to the Dutch Corporate Governance Code.](#)

#### **[The shareholders](#)**

##### **[Listing and shareholder base](#)**

Aegon's common shares are listed on Euronext Amsterdam and the New York Stock Exchange. Aegon has institutional and retail shareholders around the world. More than three-quarters of shareholders are located in Aegon's three main markets, the Netherlands, United States and the United Kingdom. Aegon's largest shareholder is Vereniging Aegon, a Dutch association with a special purpose to protect the broader interests of the Company and its stakeholders.

##### **[General Meeting of Shareholders](#)**

A General Meeting of Shareholders is held at least once a year and, if deemed necessary, the Supervisory or Executive Board of the Company has the authority to convene an Extraordinary General Meeting of Shareholders. The main function of the General Meeting of Shareholders is to decide on matters such as the adoption of annual accounts, the approval of dividend payments and (re)appointments to the Supervisory Board and Executive Board of Aegon.

##### **[Convocation](#)**

Meetings are convened by public notice at least 42 days before the meeting. The convocation states the time and location of the meeting, the record date, the agenda items, and the procedures for admittance to the meeting and representation at the meeting by means of a written proxy. Those shareholders who alone or jointly represent at least 1% of Aegon's issued capital or a block of shares worth at least EUR 100 million may request items be added to the agenda of a General Meeting of Shareholders. In accordance with Aegon's Articles of Association, such a request will be granted if it is received in writing at least 60 days before the meeting, and if there are no important interests of the Company that dictate otherwise.

##### **[Record date](#)**

The record date is used to determine shareholders' entitlements with regard to their participation and voting rights. In accordance with Dutch law, the record date is 28 days before the day of the General Meeting of Shareholders.

##### **[Attendance](#)**

Every shareholder is entitled to attend the General Meeting to speak and vote, either in person or by proxy granted in writing. This includes proxies submitted electronically. All shareholders wishing to take part must provide proof of their identity and shareholding, and must notify the Company ahead of time of their intention to attend the meeting. Aegon also solicits proxies from New York registry shareholders in line with common practice in the United States.

## **Voting at the General Meeting**

At the General Meeting, each common share carries one vote. In the absence of a Special Cause, Vereniging Aegon casts one vote for every 40 common shares B it holds.

## **Supervisory Board**

Aegon's Supervisory Board oversees the management of the Executive Board, in addition to the Company's business and corporate strategy. The Supervisory Board must take into account the interests of all Aegon stakeholders. The Supervisory Board operates according to the principles of collective responsibility and accountability.

## **Composition of the Supervisory Board**

Members of the Supervisory Board are appointed by the General Meeting of Shareholders, following nomination by the Supervisory Board itself. Aegon aims to ensure that the composition of the Company's Supervisory Board is well balanced in terms of professional background, geography and gender. A profile has been established that outlines the required qualifications of its members. Supervisory Board members are no longer eligible for (re)appointment after reaching the age of 70, unless the Supervisory Board decides to make an exception. Remuneration of the Supervisory Board members is determined by the General Meeting of Shareholders. At present, Aegon's Supervisory Board consists of eight members.

## **Committees**

The Supervisory Board also oversees the activities of its committees. These committees are composed exclusively of Supervisory Board members and deal with specific issues related to Aegon's financial accounts, risk management, executive remuneration and appointments. These committees are the:

- Audit Committee;
- Risk Committee;
- Remuneration Committee; and
- Nomination and Governance Committee.

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**Table of Contents****Executive Board**

Aegon's Executive Board is charged with the overall management of the Company and is therefore responsible for achieving Aegon's aims and developing the strategy and its associated risk profile, in addition to overseeing any relevant sustainability issues and the development of the Company's earnings. Each member has duties related to his or her specific area of expertise.

Aegon's Articles of Association determine that for certain decisions the Executive Board must seek prior approval from the Supervisory Board and/or the approval of the General Meeting of Shareholders. In addition, the Supervisory Board may also subject other Executive Board decisions to its prior approval.

**Composition of the Executive Board**

The Executive Board of Aegon consists of: Alex Wynaendts, who is Chief Executive Officer (CEO) and Chairman of the Executive Board. Darryl Button, Aegon's former Chief Financial Officer (CFO), was a member of the Executive Board until he concluded his tenure with the Company on December 1, 2016.

The number of Executive Board members and their terms of employment are determined by the Company's Supervisory Board. Executive Board members are appointed by the General Meeting of Shareholders, following nomination by the Supervisory Board.

The members of the Executive Board have an engagement agreement with the Company rather than an employment contract. The Company's Remuneration Policy for the Executive Board limits exit arrangements to a maximum of one year of salary.

**Management Board**

Aegon's Executive Board is assisted in its work by the Company's Management Board, which has ten members, including the sole member of the Executive Board. Aegon's Management Board is composed of Alex Wynaendts, Mark Bloom, Adrian Grace, Allegra van Hövell-Patrizi, Marco Keim, Gábor Kepecs, Onno van Klinken, Carla Mahieu, Mark Mullin and Sarah Russell. Darryl Button was a member of the Management Board until he concluded his tenure with the Company on December 1, 2016.

**Capital, significant shareholders and exercise of control**

As a publicly-listed company, Aegon is required to provide the following detailed information regarding any structures or measures that may hinder or prevent a third party from acquiring the Company or exercising effective control over it.

**The capital of the Company**

Aegon has an authorized capital of EUR 1,080 million, divided into 6 billion common shares and 3 billion common shares B, each with a nominal value of EUR 0.12. As of December, 31 2016, a total of 2,074,548,842 common shares

and 585,022,160 common shares B had been issued.

Depository receipts for Aegon shares are not issued with the Company's cooperation.

Each common share carries one vote. There are no restrictions on the exercise of voting rights by holders of common shares, be it regarding the number of votes or the time period in which they may be exercised.

All common shares B are held by Vereniging Aegon, the Company's largest shareholder. The nominal value of the common shares B is equal to the nominal value of a common share. This means that common shares B also carry one vote per share. However, the voting rights attached to common shares B are subject to restrictions as laid down in the Voting Rights Agreement, under which Vereniging Aegon may cast one vote for every 40 common shares B it holds in the absence of a Special Cause.

The financial rights attached to a common share B are one-fortieth (1/40th) of the financial rights attached to a common share. The rights attached to the shares of both classes are otherwise identical. For the purpose of the issuance of shares, reduction of issued capital and the transfer of common shares B, the value or the price of a common share B is determined as one-fortieth (1/40th) of the value of a common share. For such purposes, no account is taken of the difference between common shares and common shares B in terms of the proportion between financial rights and voting rights.

### **Significant shareholdings**

On December 31, 2016, Vereniging Aegon, Aegon's largest shareholder, held a total of 279,236,609 common shares and 567,697,200 common shares B.

Under the terms of the 1983 Merger Agreement as amended in May 2013, Vereniging Aegon has the option to acquire additional common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake to 32.6% of the voting rights, irrespective of the circumstances that caused the total shareholding to be or become lower than 32.6%.

To Aegon's knowledge based on the filings made with the Dutch Autoriteit Financiële Markten, the US based investment management firm Dodge & Cox International Stock Fund holds a capital and voting interest in Aegon of over 5%. Based on its last filing with the Dutch Autoriteit Financiële Markten as at September 22, 2016, Dodge & Cox International Stock Fund stated to hold 134,654,439 common shares, which represent 5.1% of the capital issued and 5.1% of the votes as at December 31, 2016. On March 20, 2017, Dodge & Cox's filing with the US Securities and Exchange Commission (SEC) shows that Dodge & Cox holds 258,658,681 common shares, representing 9.7% of the issued capital, and has voting rights for 252,734,642 shares, representing 9.5% of the votes as at December 31, 2016. The SEC filing also shows that of this number of shares Dodge & Cox International Stock Fund holds

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**122 Governance** **Corporate governance**

134,654,439 common shares, which represent 5.1% of the capital issued and 5.1% of the votes as at December 31, 2016. The remainder of the common shares registered in name of Dodge & Cox with the SEC are held by Dodge & Cox on behalf of its other clients, including investment companies registered under the Investment Company Act of 1940 and other managed accounts.

Based on its filing with the Dutch Autoriteit Financiële Markten as at December 29, 2016, BlackRock, Inc. stated to hold 80,649,787 shares as defined in the Wet op het Financieel Toezicht, representing 3.0% of the capital issued and 90,812,987 voting rights, representing 3.4% of the votes as at December 31, 2016.

The filing of Franklin Resources, Inc. (FRI), a US based investment management firm, with the SEC as at February 8, 2017, shows that FRI holds 150,157,500 common shares, representing 5.6% of the issued capital, and has voting rights for 139,607,593 shares, representing 5.2% of the votes as at December 31, 2016.

**Special control rights**

As a matter of Dutch corporate law, the common shares and the common shares B offer equal full voting rights, as they have equal nominal value (EUR 0.12). The Voting Rights Agreement entered into between Vereniging Aegon and Aegon provides that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon is not allowed to exercise more votes than is proportionate to the financial rights represented by its shares. This means that in the absence of a Special Cause, Vereniging Aegon may cast one vote for every common share it holds and one vote only for every 40 common shares B it holds. In the event of a Special Cause, Vereniging Aegon may cast one vote for every common share and one vote for every common share B.

A Special Cause may include:

The acquisition by a third party of an interest in Aegon N.V. amounting to 15% or more;

A tender offer for Aegon N.V. shares; or

A proposed business combination by any person or group of persons, whether acting individually or as a group, other than in a transaction approved by the Company's Executive and Supervisory Boards.

If Vereniging Aegon, acting at its sole discretion, determines that a Special Cause has arisen, it must notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on its common shares B for a period limited to six months. Vereniging Aegon would, for that limited period, command 32.6% of the votes at a General Meeting of Shareholders.

**Issue and repurchase of shares**

New shares may be issued up to the maximum of the Company's authorized capital, following a resolution adopted by the General

Meeting of Shareholders. Shares may also be issued following a resolution of the Executive Board, providing, and to the extent that, the Board has been authorized to do so by the General Meeting of Shareholders. A resolution authorizing the Executive Board to issue new shares is usually presented at Aegon's Annual General Meeting of Shareholders.



Aegon is entitled to acquire its own fully paid-up shares, providing it acts within existing statutory restrictions. Shareholders usually authorize the Executive Board to purchase the Company's shares under terms and conditions determined by the General Meeting.

### **Transfer of shares**

There are no restrictions on the transfer of common shares. Common shares B can only be transferred with the prior approval of Aegon's Supervisory Board.

Aegon has no knowledge of any agreement between shareholders that might restrict the transfer of shares or the voting rights pertaining to them.

### **Significant agreements and potential change of control**

Aegon is not party to any significant agreements that would take effect, alter or terminate as a result of a change of control following a public offer for the outstanding shares of the Company, other than those customary in financial markets (for example, financial arrangements, loans and joint venture agreements).

### **Share plan**

Senior executives at Aegon companies and some other employees are entitled to variable compensation of which part is granted in the form of shares. For further details, please see the remuneration-report on page 113 and note 297 of the notes to Aegon's consolidated financial statements of this Annual Report. Under the terms of existing share plans the vesting of granted rights is predefined. The shares shall vest as soon as possible in accordance with payroll requirements of the relevant subsidiary after the adoption of the Company's Annual Report at the Annual General Meetings of Shareholders in the year of vesting of these shares.

### **Appointing, suspending or dismissing Board members**

The General Meeting of Shareholders appoints members of both the Supervisory and Executive Boards, following nominations by the Supervisory Board. These nominations are binding providing at least two candidates are nominated. The General Meeting of Shareholders may cancel the binding nature of these nominations with a majority of two-thirds of votes cast, representing at least one half of Aegon's issued capital. The General Meeting may, in addition, bring forward a resolution to appoint someone not nominated by the Supervisory Board. Such a resolution also requires a two-thirds majority of votes cast, representing at least one half of Aegon's issued capital.

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Members of Aegon's Supervisory and Executive Boards may be suspended or dismissed by the General Meeting of Shareholders with a two-thirds majority of votes cast, representing at least one half of Aegon's issued capital, unless the suspension or dismissal has first been proposed by the Company's Supervisory Board. A member of the Executive Board may also be suspended by the Supervisory Board, although the General Meeting of Shareholders has the power to annul this suspension.

**Amending the Articles of Association**

The General Meeting of Shareholders may, with an absolute majority of votes cast, pass a resolution to amend Aegon's Articles of Association or to dissolve the Company, in accordance with a proposal made by the Executive Board and approved by the Supervisory Board.

**Dutch Corporate Governance Code**

As a company based in the Netherlands, Aegon adheres to the Dutch Corporate Governance Code. The version of the code applicable to the financial year 2016 is the version that came into force on January 1, 2009. Aegon endorses the Code and strongly supports its principles for sound and responsible corporate governance. Aegon regards the Code as an effective means to help ensure that the interests of all stakeholders are duly represented and taken into account. The Code also promotes transparency in decision-making and helps strengthen principles of good governance. It is the responsibility of both the Supervisory Board and the Executive Board to oversee Aegon's overall corporate governance structure. Any substantial change to this structure is submitted to the General Meeting of Shareholders for discussion.

In general, Aegon applies the best practice provisions set out in the Code. A detailed explanation is given below for those instances where Aegon does not fully apply the best practice provisions of the Code. In these few instances, Aegon adheres, as much as is possible, to the spirit of the Code.

**Code II.2.13 (j)**

**The Dutch Corporate Governance Code recommends that the remuneration report of the Supervisory Board shall in any event contain information on agreed arrangements for the early retirement of members of the Executive Board.**

**Aegon's position on Code II.2.13 (j)**

Members of Aegon's Executive Board are offered pension arrangements and retirement benefits. Benefits offered are consistent with Executive Board members' agreements. Pension arrangements do not include discretionary elements. These arrangements include retirement provisions that allow benefits to be taken at the end of the term. These retirement arrangements stem from pre-executive board membership. Details are not disclosed due to the individual nature of such arrangements.

**Code II.3.3**

**The Dutch Corporate Governance Code recommends that a member of the Executive Board should not take part in discussions or decision-making related to a subject or transaction in which he or she has a conflict of interest.**

### **Aegon's position on Code II.3.3**

In line with Dutch law, members of the Executive Board do not take part in discussions or decision-making related to a subject or transaction in which he or she has a personal conflict of interest. One member of Aegon's Executive Board is a member of the Executive Committee of the Company's largest shareholder, Vereniging Aegon. This may be construed as a business-related conflict of interest. However, under Vereniging Aegon's Articles of Association, the members of Aegon's Executive Board are specifically excluded from voting on issues directly related to Aegon or their position within it. Aegon's Supervisory Board holds the view that, given the historic relationship between Aegon and Vereniging Aegon, it would not be in the Company's best interests to prevent their participation in discussions and decision-making related to Vereniging Aegon. For this reason, a protocol authorizes the members of Aegon's Executive Board to continue their existing practice with respect to their dealings with Vereniging Aegon. The text of this protocol is available on Aegon's website.

### **Code IV.1.1**

The Dutch Corporate Governance Code recommends that the General Meeting of Shareholders may cancel the binding nature of nominations for appointments of members of the Executive Board and Supervisory Board with an absolute majority of votes and a limited quorum.

### **Aegon's position on Code IV.1.1**

Aegon's Articles of Association provide for a larger majority and a higher quorum than those advocated by the Code. Given that the Company has no specific anti-takeover measures, the current system is deemed appropriate within the context of the 1983 Merger Agreement under which Aegon was formed. However, to mitigate any possible negative effects stemming from this, the Supervisory Board has decided that, in the absence of any hostile action, it will only make nominations for the appointment of members to the Executive and Supervisory Boards that are non-binding in nature.

### **Corporate Governance Statement**

For an extensive review of Aegon's compliance with the Dutch Corporate Governance Code, please refer to the Corporate Governance Statement on Aegon's corporate website.

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**124 Governance [Differences between Dutch and US company laws](#)**

**[Differences between Dutch and US company laws](#)**

Dutch company law is different from US law in the following respects: Aegon, like most large Dutch public companies, has a two-tier governance system comprising an Executive Board and a Supervisory Board. The Executive Board is the executive body. Its members are not Aegon employees and have an engagement agreement with the Company. Members of the Executive Board are appointed and dismissed by the General Meeting of Shareholders, as inside directors are in the United States. The Remuneration Policy as regards the members of the Executive Board is adopted by the General Meeting of Shareholders. The number of the Executive Board members and the terms of their engagement are determined by the Supervisory Board within the scope of the adopted Remuneration Policy.

The Supervisory Board performs supervisory and advisory functions only, and its members are outsiders that are not employed by the Company. The Supervisory Board has the duty to supervise the performance of the Executive Board, the Company's general course of affairs and the business connected with it. The Supervisory Board also assists the Executive Board by giving advice. Other powers of the Supervisory Board include the prior approval of certain important resolutions of the Executive Board. Members of the Supervisory Board are appointed for a four-year term and may be dismissed by the General Meeting of Shareholders. The remuneration of Supervisory Board members is fixed by the General Meeting of Shareholders. Resolutions entailing a significant change in the identity or character of the Company or its business require the approval of the General Meeting of Shareholders.

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Governance **Code of ethics** 125

**Code of ethics**

Aegon's Code of Conduct is a code of ethics that outlines the Company's ethical principles in relation to various subjects. This code applies to all directors, officers (regardless of the contractual basis of their employment) and employees of all Aegon companies. This includes members of the Executive Board, the Management Board and the Supervisory Board of Aegon N.V., as well as other executive and non-executive or supervisory directors of Aegon companies.

The current version of the Code of Conduct came into force in 2012, and is available on [aegon.com](http://aegon.com). The Code outlines Aegon's clear commitment to a customer centric approach, and reflects Aegon's core values: Working Together; Bringing Clarity and Exceeding Expectations.

In order to support the Code, Aegon has engaged a vendor to supply a tool that enables employees and third parties to report actual or potential violations of the Code on an anonymous and confidential basis. Employees are encouraged to raise concerns. All reports are investigated and results are reported to the Audit Committee of the Supervisory Board. Suspected or actual frauds that exceed certain thresholds must also be reported to Group Regulatory Compliance. All fraud matters are investigated and corrective actions are taken as appropriate.

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126 Governance **Controls and procedures**

**Controls and procedures**

**Disclosure controls and procedures**

At the end of the period covered by this Annual Report, Aegon's management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer (CEO) and acting Chief Financial Officer (CFO), of the effectiveness of the design and operation of Aegon's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, Aegon's CEO and acting CFO concluded that, as of December 31, 2016, the disclosure controls and procedures were effective. There have been no material changes in the Company's internal controls or in other factors that could significantly affect internal controls over financial reporting subsequent to the end of the period covered by this Annual Report.

Due to the listing of Aegon shares on the New York Stock Exchange, Aegon is required to comply with the US Securities and Exchange Commission regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, or SOX 404. These regulations require that Aegon's CEO (the Chairman of the Executive Board) and acting CFO report on and certify the effectiveness of Aegon's internal controls over financial reporting on an annual basis. Furthermore, external auditors are required to provide an opinion on the effectiveness of Aegon's internal controls over financial reporting. The SOX 404 statement by the Executive Board is stated below, followed by the report of the external auditor.

**Management's Annual Report on internal control over financial reporting**

The directors and management of Aegon are responsible for establishing and maintaining adequate internal control over financial reporting. Aegon's internal control over financial reporting is a process designed under the supervision of Aegon's principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its published financial statements. Internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles;

- Provide reasonable assurance that receipts and expenditures are made only in accordance with the authorizations of management and directors of the Company; and

- Provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on Aegon's financial statements would be prevented or detected in a timely manner.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of Aegon's internal control over financial reporting as of December 31, 2016.

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In making its assessment management used the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013 framework).

Based on the assessment, management concluded that, in all material aspects, the internal control over financial reporting was effective as of December 31, 2016. They have reviewed the results of its work with the Audit Committee of the Supervisory Board.

The effectiveness of internal control over financial reporting as of December 31, 2016, was audited by PricewaterhouseCoopers Accountants N.V., an independent registered public accounting firm, as stated in their report included on the following page.

The Hague, March 22, 2017

**The Executive Board of Aegon N.V.**

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	<b>2016</b>				<b>2015</b>			
	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>
1 EUR	-	1.0548	0.8536	1.4145	-	1.0863	0.7370	1.5090
1 USD	0.9480	-	0.8093	1.3410	0.9206	-	0.6784	1.3891
1 GBP	1.1715	1.2357	-	1.6571	1.3569	1.4739	-	2.0475
1 CAD	0.7070	0.7457	0.6035	-	0.6627	0.7199	0.4884	-

**Weighted average exchange rates**

	<b>2016</b>				<b>2015</b>				<b>2014</b>			
	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>
1 EUR	-	1.1069	0.8187	1.4662	-	1.1100	0.7256	1.4173	-	1.3288	0.8061	1.4667
1 USD	0.9034	-	0.7396	1.3246	0.9009	-	0.6537	1.2768	0.7526	-	0.6066	1.1038
1 GBP	1.2214	1.3520	-	1.7909	1.3782	1.5298	-	1.9533	1.2405	1.6484	-	1.8195
1 CAD	0.6820	0.7549	0.5584	-	0.7056	0.7832	0.5120	-	0.6818	0.9060	0.5496	-

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**Table of Contents**Consolidated financial statements of Aegon N.V. **Consolidated income statement of Aegon N.V.** 131**Consolidated income statement of Aegon N.V.**

For the year ended December 31

Amounts in EUR million (except per share data)	Note	2016	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Premium income				
	<b>6</b>	23,453	22,925	19,864
Investment income				
	<b>7</b>	7,788	8,525	8,148
Fee and commission income				
	<b>8</b>	2,408	2,438	2,137
Other revenues				
		7	14	7
<b>Total revenues</b>		<b>33,655</b>	<b>33,902</b>	<b>30,157</b>
Income from reinsurance ceded				
	<b>9</b>	3,687	3,321	2,906
Results from financial transactions				
	<b>10</b>	15,753	521	13,213
Other income				
	<b>11</b>	66	83	61
<b>Total income</b>		<b>53,162</b>	<b>37,827</b>	<b>46,338</b>
Premiums paid to reinsurers				
	<b>6</b>	3,176	2,979	3,011
Policyholder claims and benefits				
	<b>12</b>	41,974	26,443	36,214
Profit sharing and rebates				
	<b>13</b>	49	31	17
Commissions and expenses				
	<b>14</b>	6,351	6,598	5,629
Impairment charges / (reversals)	<b>15</b>	95	1,251	87

Interest charges and related fees				
	<b>16</b>	347	412	371
Other charges	<b>17</b>	700	774	172
<b>Total charges</b>		<b>52,693</b>	<b>38,489</b>	<b>45,502</b>
<b>Income before share in profit / (loss) of joint ventures, associates and tax</b>		<b>470</b>	<b>(661)</b>	<b>836</b>
Share in profit / (loss) of joint ventures				
		137	142	56
Share in profit / (loss) of associates		3	5	24
<b>Income / (loss) before tax</b>		<b>610</b>	<b>(514)</b>	<b>916</b>
Income tax (expense) / benefit	<b>18</b>	(172)	83	(151)
<b>Net income / (loss)</b>		<b>438</b>	<b>(431)</b>	<b>766</b>
<b>Net income / (loss) attributable to:</b>				
Owners of Aegon N.V.				
		437	(432)	765
Non-controlling interests				
		-	1	1
<b>Earnings per share (EUR per share)</b>	<b>19</b>			
Basic earnings per common share				
		0.15	(0.27)	0.29
Basic earnings per common share B				
		-	(0.01)	0.01
Diluted earnings per common share				
		0.15	(0.27)	0.29
Diluted earnings per common share B				
		-	(0.01)	0.01

<sup>1</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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For the year ended December 31

Amounts in EUR million	2016	2015 <sup>1)</sup>	2014 <sup>1)</sup>
Net income / (loss)	438	(431)	766
<b>Items that will not be reclassified to profit or loss:</b>			
Changes in revaluation reserve real estate held for own use	8	13	9
Remeasurements of defined benefit plans	(392)	240	(1,156)
Income tax relating to items that will not be reclassified	86	(77)	333
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Gains / (losses) on revaluation of available-for-sale investments	854	(2,175)	6,759
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments	(2,122)	(485)	(702)
Changes in cash flow hedging reserve	(54)	446	1,188
Movement in foreign currency translation and net foreign investment hedging reserves	69	1,419	1,654
Equity movements of joint ventures	9	(8)	10
Equity movements of associates	3	(1)	(10)
Disposal of group assets	-	(544)	-



Income tax relating to items that may be reclassified	225	783	(2,018)
Other	12	9	(5)
<b>Total other comprehensive income / (loss)</b>			
	<b>(1,301)</b>	<b>(380)</b>	<b>6,062</b>
<b>Total comprehensive income / (loss)</b>	<b>(863)</b>	<b>(811)</b>	<b>6,827</b>
<b>Total comprehensive income/ (loss) attributable to:</b>			
Owners of Aegon N.V.			
	(878)	(811)	6,828
Non-controlling interests	15	-	(1)

<sup>1</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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**Table of Contents**Consolidated financial statements of Aegon N.V. **Consolidated statement of financial position of Aegon N.V.** 133**Consolidated statement of financial position of Aegon N.V.**

As at December 31

Amounts in EUR million	Note	2016	2015 <sup>1)</sup>	January 1, 2015 <sup>1)</sup>
<b>Assets</b>				
Cash and cash equivalents				
	<b>21</b>	11,347	9,594	10,610
Assets held for sale				
	<b>22</b>	8,705	-	9,881
Investments				
	<b>23</b>	156,303	160,478	153,219
Investments for account of policyholders				
	<b>24</b>	203,610	200,226	191,467
Derivatives				
	<b>25</b>	8,318	11,545	28,014
Investments in joint ventures				
	<b>26</b>	1,614	1,561	1,468
Investments in associates				
	<b>27</b>	270	242	140
Reinsurance assets				
	<b>28</b>	11,208	11,257	9,593
Defined benefit assets				
	<b>41</b>	51	41	38
Deferred tax assets				
	<b>43</b>	87	25	27
Deferred expenses				
	<b>29</b>	11,423	10,997	10,019

Other assets and receivables				
	<b>30</b>	10,667	7,549	7,563
Intangible assets				
	<b>31</b>	1,820	1,901	2,073
<b>Total assets</b>		<b>425,425</b>	<b>415,415</b>	<b>424,112</b>
<b>Equity and liabilities</b>				
Shareholders' equity				
	<b>32</b>	20,520	22,441	23,847
Other equity instruments				
	<b>33</b>	3,797	3,800	3,827
<b>Issued capital and reserves attributable to owners of Aegon N.V.</b>				
		<b>24,318</b>	<b>26,241</b>	<b>27,674</b>
Non-controlling interests				
		23	9	9
<b>Group equity</b>		<b>24,341</b>	<b>26,250</b>	<b>27,683</b>
Subordinated borrowings	<b>34</b>	767	759	747
Trust pass-through securities				
	<b>35</b>	156	157	143
Insurance contracts				
	<b>36</b>	119,569	123,042	111,927
Insurance contracts for account of policyholders				
	<b>36</b>	120,929	112,679	102,250
Investment contracts				
	<b>37</b>	19,572	17,718	15,359
Investment contracts for account of policyholders				
	<b>37</b>	84,774	90,119	91,849
Derivatives				
	<b>25</b>	8,878	10,890	26,048
Borrowings				
	<b>39</b>	13,153	12,445	14,158
Provisions	<b>40</b>	173	175	322

Defined benefit liabilities				
	<b>41</b>	4,817	4,471	4,404
Deferred gains				
	<b>42</b>	64	112	82
Deferred tax liabilities				
	<b>43</b>	2,201	2,252	2,906
Liabilities held for sale				
	<b>22</b>	8,816	-	7,810
Other liabilities				
	<b>44</b>	16,978	14,074	18,152
Accruals				
	<b>45</b>	237	272	272
<b>Total liabilities</b>		<b>401,084</b>	<b>389,165</b>	<b>396,429</b>
<b>Total equity and liabilities</b>		<b>425,425</b>	<b>415,415</b>	<b>424,112</b>

<sup>1</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents****134** Consolidated financial statements of Aegon N.V. **Consolidated statement of changes in equity of Aegon N.V.****Consolidated statement of changes in equity of Aegon N.V.**

For the year ended December 31, 2016

Million	Note	Re-measure-							Non-con- trolling interests	Total
		Share capital	Retained earnings	Revalu- ation reserves	ment of defined benefit plans	Other reserves	Other equity instru- ments	Issued capital and reserves <sup>1)</sup>		
		8,387	7,832	6,471	(1,532)	1,283	3,800	26,241	9	26,250
Income		-	437	-	-	-	-	437	-	438
Dividends										
Share-based payments										
Share repurchase										
Share repurchase held for		-	-	8	-	-	-	8	-	8
Share repurchase to		-	-	-	(392)	-	-	(392)	-	(392)
Share repurchase e		-	-	(3)	89	-	-	86	-	86
Share repurchase ultimately										
		-	-	854	-	-	-	854	-	854

ferred on ment of	-	-	(2,122)	-	-	-	(2,122)	-	(2,122)
w	-	-	(54)	-	-	-	(54)	-	(54)
gn and ent	-	-	(38)	16	91	-	69	-	69
of joint	-	-	-	-	9	-	9	-	9
of	-	-	-	-	3	-	3	-	3
to	-	-	264	-	(39)	-	225	-	225
	-	(2)	-	-	-	-	(2)	14	12
ome /	-	(2)	(1,090)	(288)	64	-	(1,315)	14	(1,301)
ve 2016	-	435	(1,090)	(288)	64	-	(878)	15	(863)
	1	-	-	-	-	-	1	-	1
	(10)	(372)	-	-	-	-	(382)	-	(382)
se of	-	(27)	-	-	-	-	(27)	-	(27)
	(186)	(304)	-	-	-	-	(490)	-	(490)
ng tax	-	(2)	-	-	-	-	(2)	-	(2)
al	-	(105)	-	-	-	-	(105)	-	(105)
	-	(28)	-	-	-	-	(28)	-	(28)
	-	(9)	-	-	-	(3)	(12)	-	(12)
016	32, 33	8,193	7,419	5,381	(1,820)	1,347	3,797	24,318	23 24,341

<sup>1</sup> Issued capital and reserves attributable to owners of Aegon N.V.

**Table of Contents**Consolidated financial statements of Aegon N.V. **Consolidated statement of changes in equity of Aegon N.V.** 135**Consolidated statement of changes in equity of Aegon N.V.**

For the year ended December 31, 2015

R million 2015 <sup>3)</sup>	Note	Share capital	Retained earnings	Re-		Other reserves	Other equity instru- ments	Issued capital and reserves <sup>1)</sup>	Non-con- trolling interests	Total
				valuation reserves	measurement of defined benefit plans					
		8,597	8,639	8,308	(1,611)	(86)	3,827	27,674	9	27,683
loss) e income		-	(432)	-	-	-	-	(432)	1	(431)
ensive that will ied to		-	-	13	-	-	-	13	-	13
valuation ate held for		-	-	-	240	-	-	240	-	240
ts of plans		-	-	(2)	(75)	-	-	(77)	-	(77)
ting to not be		-	-	-	-	-	-	-	-	-
y be sequently s:		-	-	-	-	-	-	-	-	-

on									
le									
transferred	-	-	(2,175)	-	-	-	(2,175)	-	(2,175)
ment on									
pairment of									
ale									
n flow	-	-	(485)	-	-	-	(485)	-	(485)
Foreign									
ation and									
vestment									
s									
nts of joint	-	-	-	(86)	1,505	-	1,419	-	1,419
nts of	-	-	-	-	(8)	-	(8)	-	(8)
up assets 2)	-	-	-	-	(1)	-	(1)	-	(1)
ting to	-	-	(468)	-	(76)	-	(544)	-	(544)
be									
	-	-	836	-	(52)	-	783	-	783
	-	10	-	-	-	-	10	(1)	9
<b>income /</b>									
	-	<b>10</b>	<b>(1,837)</b>	<b>79</b>	<b>1,369</b>	-	<b>(379)</b>	<b>(1)</b>	<b>(380)</b>
<b>ensive</b>	-	<b>(422)</b>	<b>(1,837)</b>	<b>79</b>	<b>1,369</b>	-	<b>(811)</b>	-	<b>(811)</b>
<b>for 2015</b>									



nd										
urchase of	1	-	-	-	-	-	1	-	1	
on	-	52	-	-	-	-	52	-	52	
olding tax	(211)	(292)	-	-	-	-	(503)	-	(503)	
petual	-	1	-	-	-	-	1	-	1	
	-	(111)	-	-	-	-	(111)	-	(111)	
otes										
nd										
	-	(7)	-	-	-	(27)	(33)	-	(33)	
<b>31, 2015</b>	<b>32, 33</b>	<b>8,387</b>	<b>7,832</b>	<b>6,471</b>	<b>(1,532)</b>	<b>1,283</b>	<b>3,800</b>	<b>26,241</b>	<b>9</b>	<b>26,250</b>

<sup>1</sup> Issued capital and reserves attributable to owners of Aegon N.V.

<sup>2</sup> Refer to note 51 for details on the disposals

<sup>3</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents**136 Consolidated financial statements of Aegon N.V. **Consolidated statement of changes in equity of Aegon N.V.****Consolidated statement of changes in equity of Aegon N.V.**

For the year ended December 31, 2014

	Note	Share capital	Retained earnings	Revaluation reserves	Re-measurement of defined benefit plans	Other reserves	Other equity instruments	Issued capital and reserves <sup>1)</sup>	Non-controlling interests	Total
Previously		8,701	8,455	3,023	(706)	(1,778)	5,015	22,709	10	22,719
Change relating to cost of sale		-	(110)	-	-	5	-	(105)	-	(105)
At January 1, 2014 (restated)		8,701	8,345	3,023	(706)	(1,773)	5,015	22,605	10	22,614
Net income / (loss) recognized		-	765	-	-	-	-	765	1	766
Comprehensive income / (loss) items not being recognized in the consolidated financial statements		-	-	9	-	-	-	9	-	9
Share-based payments		-	-	-	(1,156)	-	-	(1,156)	-	(1,156)

to items not be ed t may ified ntly to loss: osses) ation of for-sale ts losses d to	-	-	(2)	335	-	-	333	-	333
on nd nt of	-	-	-	-	-	-	-	-	-
ts n cash ing	-	-	(702)	-	-	-	(702)	-	(702)
ts in urrency n and n t eserves	-	-	1,188	-	-	-	1,188	-	1,188
ts of ures	-	-	-	(84)	1,738	-	1,654	-	1,654
ts of	-	-	-	-	10	-	10	-	10
x o items be d	-	-	-	-	(10)	-	(10)	-	(10)
	-	-	(1,968)	-	(50)	-	(2,018)	-	(2,018)
er ensive (loss)	-	(4)	-	-	-	-	(4)	(1)	(5)
	-	(4)	5,285	(905)	1,687	-	6,063	(1)	6,062
ensive (loss)	-	761	5,285	(905)	1,687	-	6,828	(1)	6,827

and of shares	-	(67)	-	-	-	-	(67)	-	(67)	
ity nts	-	11	-	-	-	(1,184)	(1,173)	-	(1,173)	
s paid on	(104)	(266)	-	-	-	-	(370)	-	(370)	
on	-	(128)	-	-	-	-	(128)	-	(128)	
on ulative ted	-	(24)	-	-	-	-	(24)	-	(24)	
ions tive	-	7	-	-	-	(4)	3	-	3	
<b>r 31,</b>	<b>32, 33</b>	<b>8,597</b>	<b>8,639</b>	<b>8,308</b>	<b>(1,611)</b>	<b>(86)</b>	<b>3,827</b>	<b>27,674</b>	<b>9</b>	<b>27,683</b>

<sup>1</sup> Issued capital and reserves attributable to owners of Aegon N.V.

<sup>2</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents**Consolidated financial statements of Aegon N.V. **Consolidated cash flow statement of Aegon N.V.** 137**Consolidated cash flow statement of Aegon N.V.**

For the year ended December 31

Amounts in EUR million	Note	2016	2015 <sup>3)</sup>	2014 <sup>3)</sup>
<b>Income / (loss) before tax</b>		<b>610</b>	(514)	916
Results from financial transactions		(16,294)	(896)	(13,640)
Amortization and depreciation		1,208	1,519	944
Impairment losses		88	1,261	87
Income from joint ventures		(137)	(142)	(56)
Income from associates		(3)	(5)	(24)
Release of cash flow hedging reserve		(59)	(39)	(12)
Other		577	476	187
<b>Adjustments of non-cash items</b>		<b>(14,621)</b>	<b>2,174</b>	<b>(12,514)</b>
Insurance and investment liabilities		2,640	3,381	6,375
Insurance and investment liabilities for account of policyholders		10,716	(3,343)	12,302
Accrued expenses and other liabilities		2,750	(1,843)	991
Accrued income and prepayments		(2,951)	(1,387)	(2,266)

<b>Changes in accruals</b>			
	13,155	(3,192)	17,403
Purchase of investments (other than money market investments)			
	(34,873)	(38,290)	(36,577)
Purchase of derivatives			
	(831)	(1,003)	1,417
Disposal of investments (other than money market investments)			
	33,246	36,619	33,846
Disposal of derivatives			
	2,373	3,099	1,589
Net purchase of investments for account of policyholders			
	5,160	4,371	(1,788)
Net change in cash collateral			
	(1,349)	(2,569)	627
Net purchase of money market investments			
	532	648	(958)
<b>Cash flow movements on operating items not reflected in income</b>			
	4,258	2,875	(1,843)
Tax paid			
	(116)	(405)	148
Other			
	34	(23)	12
<b>Net cash flows from operating activities</b>			
	<b>3,319</b>	<b>914</b>	<b>4,122</b>
Purchase of individual intangible assets (other than VOBA and future servicing rights)			
	(22)	(52)	(28)
Purchase of equipment and real estate for own use			
	(69)	(90)	(77)
Acquisition of subsidiaries, net of cash			
	(2)	(66)	-
Acquisition joint ventures and associates			
	(112)	(173)	(95)

Disposal of equipment			
	3	8	13
Disposal of subsidiaries and businesses, net of cash			
	(1,082)	542	-
Disposal joint ventures and associates			
	3	371	42
Dividend received from joint ventures and associates			
	203	76	75
<b>Net cash flows from investing activities</b>			
	<b>(1,078)</b>	<b>615</b>	<b>(71)</b>
Issuance of share capital			
	-	1	-
Purchase of treasury shares			
	(623)	(213)	(199)
Proceeds from TRUPS <sup>1)</sup> , subordinated loans and borrowings			
	3,711	1,821	3,862
Repayment of perpetuals			
	-	-	(1,173)
Repayment of TRUPS <sup>1)</sup> , subordinated loans and borrowings			
	(3,070)	(3,916)	(1,307)
Dividends paid			
	(306)	(292)	(266)
Coupons on perpetual securities			
	(140)	(148)	(171)
Coupons on non-cumulative subordinated notes			
	(38)	(38)	(32)
<b>Net cash flows from financing activities</b>			
	<b>(465)</b>	<b>(2,785)</b>	<b>715</b>
<b>Net increase / (decrease) in cash and cash equivalents <sup>2)</sup></b>			
	<b>1,776</b>	<b>(1,257)</b>	<b>4,766</b>
Net cash and cash equivalents at the beginning of the year	9,593	10,649	5,652
Effects of changes in exchange rate	(23)	200	231
<b>Net cash and cash equivalents at the end of the year</b>	<b>21</b>	<b>11,346</b>	<b>9,593</b>
		<b>10,649</b>	

- <sup>1</sup> Trust pass-through securities.
- <sup>2</sup> Included in net increase / (decrease) in cash and cash equivalents are interest received (2016: EUR 6,691 million, 2015: EUR 7,118 million and 2014: EUR 6,711 million) dividends received (2016: EUR 1,387 million, 2015: EUR 1,384 million and 2014: EUR 1,342 million) and interest paid (2016: EUR 300 million, 2015: EUR 350 million and 2014: EUR 320 million). All included in operating activities except for dividend received from joint ventures and associates (2016: EUR 203 million, 2015: EUR 76 million and 2014: EUR 75 million).
- <sup>3</sup> Amounts have been restated to reflect the voluntary changes in accounting policies for deferred cost of reinsurance that was adopted by Aegon effective January 1, 2016. Furthermore a voluntary change in insurance accounting for business in United Kingdom was adopted by Aegon effective January 1, 2016 as well. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

The cash flow statement is prepared according to the indirect method.



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138 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 1**

**Notes to the consolidated financial statements****1 General information**

Aegon N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague registered under number 27076669 and with its registered address at Aegonplein 50, 2591 TV, The Hague, the Netherlands. Aegon N.V. serves as the holding company for the Aegon Group and has listings of its common shares in Amsterdam and New York.

Aegon N.V. (or the Company ) and its subsidiaries ( Aegon or the Group ) have life insurance and pensions operations in more than 20 countries in the Americas, Europe and Asia and are also active in savings and asset management operations, accident and health insurance, general insurance and to a limited extent banking operations. Headquarters are located in The Hague, the Netherlands. The Group employs over 29,000 people worldwide (2015: over 31,500).

**2 Summary of significant accounting policies****2.1 Basis of presentation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code for purpose of reporting with the U.S. Securities and Exchange Commission ( SEC ), including financial information contained in this Annual Report.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2016 is provided below in note 2.1.1 Adoption of new IFRS accounting standards. The consolidated financial statements are presented in euro and all values are rounded to the nearest million unless otherwise stated. The consequence is that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain amounts in prior years, next to the voluntary accounting changes as described in note 2.1.2, may have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income, shareholders' equity or earnings per share.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred policy acquisition costs, value of business acquired and other purchased intangible assets, goodwill, policyholder claims and benefits, insurance guarantees, pension plans, income taxes and the potential effects of resolving litigation matters.

The consolidated financial statements of Aegon N.V. were approved by the Executive Board and by the Supervisory Board on March 22, 2017. The financial statements will be put for adoption to the Annual General Meeting of Shareholders on May 19, 2017.

The shareholders' meeting can decide not to adopt the financial statements but cannot amend them.

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

A reconciliation between IFRS and IFRS-EU is included in the table below.

	Shareholders' equity			Net income		
	2016	2015	2014	2016	2015	2014
<b>In accordance with IFRS</b>						
	<b>20,520</b>	<b>22,441</b>	<b>23,847</b>	<b>438</b>	<b>(431)</b>	<b>766</b>
Adjustment of EU IAS 39 carve-out						
	510	315	434	195	(120)	559
Tax effect of the adjustment	(117)	(71)	(98)	(47)	27	(129)
Effect of the adjustment after tax	<b>393</b>	<b>244</b>	<b>336</b>	<b>149</b>	<b>(92)</b>	<b>429</b>
<b>In accordance with IFRS-EU</b>	<b>20,913</b>	<b>22,684</b>	<b>24,183</b>	<b>586</b>	<b>(523)</b>	<b>1,195</b>

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**Table of Contents**Consolidated financial statements of Aegon N.V. [Notes to the consolidated financial statements](#) **Note 2139****2.1.1 Adoption of new IFRS accounting standards**

New standards and amendments to standards become effective at the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2016, the following new standards and amendments to existing standards issued by the IASB became mandatory but are not currently relevant or do not significantly impact the financial position or financial statements:

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;  
 IFRS 11 Joint Arrangements - Amendment Accounting for Acquisition of Interests in Joint Operations;  
 IFRS 14 Regulatory Deferral Accounts<sup>1</sup>;  
 IAS 1 Amendment Disclosure Initiative;  
 IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization;  
 IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements; and  
 Annual improvements 2012-2014 Cycle.

**2.1.2 Voluntary changes in accounting policies**

On January 13, 2016, Aegon provided an update on its strategic plans at its Analyst & Investor Conference. Following this update Aegon adopted voluntary changes in accounting policies, effective January 1, 2016, which are applied retrospectively for all periods presented. Firstly, Aegon adopted a group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. Also, Aegon made two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom. The changes in the United Kingdom do not impact other reporting units within Aegon as these are changes specific to Aegon UK. However, these changes do increase alignment with other reporting units within Aegon.

In the paragraphs below, details are provided for these changes in accounting policies including the impact on shareholders equity and net income.

**Accounting related to certain reinsurance transactions**

Aegon adopted one single group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. The previous accounting policy recorded a deferred cost of reinsurance which was subsequently amortized. Under the new accounting policy, when the company enters into a reinsurance contract as part of a plan to exit a business, an immediate gain or loss will be recognized in the income statement.

For purposes of this accounting policy, a business is defined as designated insurance liabilities to be disposed of through reinsurance transactions. The insurance liabilities are designated according to their homogenous risk profiles, possible examples include but are not limited to geographical area, product type, distribution channel, policyholder profiles, and policy form or riders. Details for the deferred cost of reinsurance are included in note 2.13 Deferred expenses.

**Insurance accounting for business in United Kingdom**

In January 2016, Aegon announced the restructuring of its business and operations in the UK. This involves splitting the Aegon UK business into three components: the annuity business, the traditional pension book and the new digital solutions platform. By extracting the digital solutions platform from the rest of the business, management aims to

ensure the focus and separate culture required to successfully build a viable and sustainably growing business over the longer term.

Aegon adopted two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom, only affecting Aegon UK. The changes 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.

### **Level of aggregation**

The previous accounting policy for the level of aggregation for the liability adequacy test in the United Kingdom was on a geographical basis, therefore the total Aegon UK book was considered as one population. After the announced restructuring, Aegon's business in the United Kingdom has been split into different portfolios that are managed independently from one another. Management is of the opinion that the liability adequacy test should be disaggregated to a portfolio level to reflect this change in strategy. This change in the definition of portfolio for Aegon UK will better align with other reporting units in the Group where insurance contracts are grouped consistent with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Details for the liability adequacy test are included in note 2.19 Insurance contracts.

<sup>1</sup> Not yet endorsed by the European Union.

**Table of Contents**140 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2****Substantial modification**

The previous accounting policy for Aegon's business in the United Kingdom is to derecognize insurance contracts when legal extinguishment occurs. As the annuity business, the traditional pension book and the new digital solutions platform will be managed separately post-restructuring, Aegon has decided to change its accounting policy for Aegon UK to one that applies criteria from IAS 39 contract modification. Under these criteria a change could be significant enough to be considered an extinguishment of the existing contract and the issuance of a new contract. Aegon considers that this change in accounting policy is preferred as introducing a more sophisticated approach to contract modification is consistent with how the business will be managed post-restructuring. Furthermore, it will provide the user with information that is more relevant and that reliably reflects the economic substance of our transactions with our upgraded policyholders, as required by IFRS 4 and IAS 8, in relation to the nature of contract modifications. Details for the recognition and derecognition of insurance contracts are included in note 2.19 Insurance contracts.

**Impact of the adjustments**

Details of the impact of both of the adjustments on previous periods of the financial statements are provided in the following tables, including references to the notes that are impacted by changes in accounting policies. Notes that are impacted other than those referenced in the restatement tables provided include note 4, 5, 46 and 52. Furthermore, the Company financial statements of Aegon N.V. have been adjusted to reflect lower income from subsidiaries and the knock-on impact on equity as well as the financial statement schedules included in Other financial information.

<b>Impact of changes in accounting policies on the consolidated income statement</b>	<b>Note</b>	2015	2015		2014		2014		
		(as previously reported)	2015		2014		2014		
		<sup>1)</sup> Change in accounting policy	(restated)	previously reported	<sup>1)</sup> Change in accounting policy	(restated)	previously reported	(restated)	
			Deferred cost of reinsurance	Insurance accounting in UK		Deferred cost of reinsurance	Insurance accounting in UK		
Premium income	<b>6</b>	20,311	-	2,614	22,925	19,864	-	-	19,864
Policy holder claims and benefits	<b>12</b>	(23,830)	-	(2,614)	(26,443)	(36,214)	-	-	(36,214)
Commissions and expenses	<b>14</b>	(6,485)	36	(150)	(6,598)	(5,656)	27	-	(5,629)
Impairment charges / (reversals)	<b>15</b>	22	-	(1,274)	(1,251)	(87)	-	-	(87)

Income tax (expense) / benefit	18	(162)	(26)	270	83	(132)	(18)	-	(151)
<b>Impact on net income</b>			<b>10</b>	<b>(1,153)</b>			<b>9</b>	<b>-</b>	
<b>Earnings per share (EUR per share)</b>	<b>19</b>								
Basic earnings per common share		0.27	-	(0.54)	(0.27)	0.29	-	-	0.29
Basic earnings per common share B		0.01	-	(0.01)	(0.01)	0.01	-	-	0.01
Diluted earnings per common share		0.27	-	(0.54)	(0.27)	0.29	-	-	0.29
Diluted earnings per common share B		0.01	-	(0.01)	(0.01)	0.01	-	-	0.01
<b>Earnings per common share calculation</b>	<b>19</b>								
Net income / (loss) attributable to owners		711	10	(1,153)	(432)	756	9	-	765
Coupons on perpetual securities		(111)	-	-	(111)	(128)	-	-	(128)
Coupons on non-cumulative subordinated notes		(28)	-	-	(28)	(24)	-	-	(24)
Net income / (loss) attributable to owners for basic earnings per share calculation		572	10	(1,153)	(571)	605	9	-	613
Weighted average number of common shares outstanding (in million)		2,101	-	-	2,101	2,094	-	-	2,094

Weighted  
average  
number of  
common shares  
B outstanding  
(in million)

584	-	-	584	580	-	-	580
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<sup>1</sup> As reported in Aegon's Annual Report dated March 25, 2016.

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	December 31, 2015		December 31, 2014					
	(as previously reported)		December 31, 2015 (restated)		(as previously reported)		December 31, 2014 (restated)	
	<sup>1)</sup> Change in accounting policy		<sup>1)</sup> Change in accounting policy					
<b>Impact of changes in accounting policies on the consolidated statement of comprehensive income</b>	<b>Note</b>		Deferred cost of reinsurance	Insurance accounting in UK		Deferred cost of reinsurance	Insurance accounting in UK	
<b>Net income</b>		<b>712</b>	<b>10</b>	<b>(1,153)</b>	<b>(431)</b>	<b>757</b>	<b>9</b>	<b>-</b>
<b>Items that may be reclassified to profit or loss:</b>								
Movement in foreign currency translation and net foreign investment hedging reserves	<b>32.6</b>	1,414	(12)	18	1,419	1,668	(14)	-
<b>Net effect comprehensive income</b>		<b>326</b>	<b>(2)</b>	<b>(1,135)</b>	<b>(811)</b>	<b>6,832</b>	<b>(5)</b>	<b>-</b>
<b>Total comprehensive income attributable to:</b>								
Owners of Aegon N.V.		326	(2)	(1,135)	(811)	6,833	(5)	-
Non-controlling interests		-	-	-	-	(1)	-	(1)

<sup>1</sup> As reported in Aegon's Annual Report dated March 25, 2016.

	December 31, 2015	Change in accounting policy	December 31, 2015 (restated)	January 1, 2015 (as previously reported) <sup>1)</sup>	Change in January 1, accounting policy 2015 (restated)
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(as  
previously  
reported)  
1)**Impact of  
changes in  
accounting  
policies on  
the  
consolidated  
statement of  
financial  
position**

	Note		Deferred cost of reinsurance	Insurance accounting in UK			Deferred cost of reinsurance	Insurance accounting in UK		
<b>Assets</b>										
Deferred expenses	29	12,547	(358)	(1,192)	10,997	10,373	(355)	-	10,019	
Intangible assets	31	2,110	-	(210)	1,901	2,073	-	-	2,073	
<b>Equity and liabilities</b>										
Shareholders equity	32	23,688	(112)	(1,135)	22,441	23,957	(110)	-	23,847	
Insurance contracts	36	123,042	-	-	123,042	111,927	-	-	111,927	
Investment contracts	37	17,718	-	-	17,718	15,359	-	-	15,359	
Deferred tax liabilities	43	2,765	(247)	(266)	2,252	3,151	(245)	-	2,906	

<sup>1</sup> As reported in Aegon's Annual Report dated March 25, 2016.December 31,  
2015  
(as  
previously  
reported)December 31,  
2014**Impact of  
changes in  
accounting  
policies on the  
statement of  
changes in  
equity**

	Note		Deferred cost of reinsurance	Insurance accounting in UK			Deferred cost of reinsurance	Insurance accounting in UK	
Share capital	32.1	8,387	-	-	8,387	8,597	-	-	8,597
Retained earnings	32	9,075	(91)	(1,153)	7,832	8,740	(101)	-	8,639
Revaluation reserves	32.4	6,471	-	-	6,471	8,308	-	-	8,308
	32.5	(1,532)	-	-	(1,532)	(1,611)	-	-	(1,611)

Remeasurement of defined benefit plans									
Other reserves	<b>32.6</b>	1,286	(21)	18	1,283	(77)	(9)	-	(86)
<b>Shareholders equity</b>		<b>23,688</b>	<b>(112)</b>	<b>(1,135)</b>	<b>22,441</b>	<b>23,957</b>	<b>(110)</b>	<b>-</b>	<b>23,847</b>

<sup>1</sup> As reported in Aegon's Annual Report dated March 25, 2016.

The voluntary changes in accounting policies have had no impact on the net cash flows from operating activities, investing activities nor from financing activities as presented in the cash flow statement.

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**2.1.3 Future adoption of new IFRS accounting standards**

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2017, were not early adopted by the Group, but will be applied in future years:

IFRS 9 Financial Instruments, including the separate amendment Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts; and

IFRS 15 Revenue from Contracts with Customers, including Clarifications to IFRS 15 as issued in 2016.

**IFRS 9 Financial Instruments**

The IASB issued the complete version of IFRS 9 Financial Instruments in July 2014. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 and all previous versions of IFRS 9. Under IFRS 9 Classification and Measurement, financial assets are measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are designated at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the impairment component, the IASB included requirements for a credit loss allowance or provision which should be based on expected losses rather than incurred losses.

Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. However, the IASB has issued an amendment to IFRS 4 Insurance Contracts. The objective of the amendment is to address the temporary accounting consequences of the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. The amendments permit entities whose predominant activities are connected with insurance, to either defer the application of IFRS 9 until 2021 (the temporary exemption); or to permit all issuers of insurance contracts to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued (the overlay approach).

Aegon will make use of the temporary exemption to defer the application of IFRS 9 until 2021, as it meets the underlying qualifying criteria for doing so.

As Aegon will defer the application of IFRS 9 until 2021, the full impact of the standard is not yet clear, however an initial impact assessment resulted in the expectation that it will have a significant impact on shareholders' equity, income and/or other comprehensive income and disclosures. An implementation project will be combined with the implementation of the new insurance contracts standard (IFRS 17) which is expected to be issued by the IASB in the first half-year of 2017.

**IFRS 15 Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18 Revenue, as well as other IFRIC and SIC interpretations regarding revenue unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The standard outlines the principles an entity shall apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled

in exchange for transferring goods or services to a customer. In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Transition Resource Group (TRG). The amendments are intended to clarify the requirements in IFRS 15, not to change the standard. IFRS 15 and the amendments will be effective for the Group on January 1, 2018, using either of two methods: a full retrospective approach with certain practical expedients or a modified retrospective approach with the cumulative effect of initially applying this standard recognized at the date of initial application with certain additional disclosures. Aegon is evaluating the impact that adoption of this standard is expected to have on the Group's financial statements. The full impact will only be clear after full assessment of the standard, however as insurance revenue is not in scope of IFRS 15, the impact on Aegon is limited to other types of revenue.

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Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2143**

**2.1.4 Disclosure of new standards that have been issued but are not yet effective**

The following new standards and amendments to existing standards and interpretations, published prior to January 1, 2017, which are not yet effective for the Group nor early adopted, are not expected to significantly impact the financial position or financial statements:

IFRS 2 Clarifications of Classification and Measurement of Share Based Payments Transactions;  
 IFRS 16 Leases;  
 IAS 7 Amendment Disclosure initiative;  
 IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;  
 IAS 40 Amendment Transfers of Investment Property;  
 Annual improvements 2014-2016 Cycle; and  
 IFRIC 22 Foreign Currency Transactions and Advance Consideration.

**2.2 Basis of consolidation****Subsidiaries**

The consolidated financial statements include the financial statements of Aegon N.V. and its subsidiaries. Subsidiaries (including consolidated structured entities) are entities over which Aegon has control. Aegon controls an entity when Aegon is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between the Group and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the Group's accounting policies, which is consistent with IFRS. Intra-group transactions, including Aegon N.V. shares held by subsidiaries, which are recognized as treasury shares in equity, are eliminated. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the Group's share in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair value of the assets, liabilities and contingent liabilities acquired in the business combination has been determined provisionally, adjustments to these values resulting from the emergence of new evidence within 12 months after the acquisition date are made against goodwill. Aegon recognized contingent considerations either as provision or as financial liability depending on the characteristics. Contingent considerations recognized as provisions are discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent consideration given in a business combination are recognized in the income statement. Contingent considerations recognized as financial liabilities are measured at fair value through profit or loss.

The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

### **Transactions with non-controlling interests**

Transactions with non-controlling interests are accounted for as transactions with owners. Therefore disposals to non-controlling interests and acquisitions from non-controlling interests, not resulting in losing or gaining control of the subsidiary are recorded in equity. Any difference between consideration paid or received and the proportionate share in net assets is accounted for in equity attributable to shareholders of Aegon N.V.

### **Investment funds**

Investment funds managed by the Group in which the Group holds an interest are consolidated in the financial statements if the Group has power over that investment fund and it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, all interests held by the Group in the fund are considered, regardless of whether the financial risk related to the investment is borne by the Group or by the policyholders (unless a direct link between the policyholder and the fund can be assumed).

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In determining whether Aegon has power over an investment fund all facts and circumstances are considered, including the following:

- Control structure of the asset manager (i.e. whether an Aegon subsidiary);
- The investment constraints posed by investment mandate;
- Legal rights held by the policyholder to the separate assets in the investment vehicle (e.g. policyholders could have the voting rights related to these investments);
- The governance structure, such as an independent board of directors, representing the policyholders, which has substantive rights (e.g. to elect or remove the asset manager); and
- Rights held by other parties (e.g. voting rights of policyholders that are substantive or not).

**Exposure or rights to variability of returns can be the result of, for example:**

- General account investment of Aegon;
- Aegon's investments held for policyholder;
- Guarantees provided by Aegon on return of policyholders in specific investment vehicles;
- Fees dependent on fund value (including, but not limited to, asset management fees); and
- Fees dependent on performance of the fund (including, but not limited to, performance fees).

Investment funds where Aegon acts as an agent are not consolidated due to lack of control of the funds. In particular, for some separate accounts, the independent board of directors has substantive rights and therefore Aegon does not have power over these separate accounts but acts as an agent.

For limited partnerships, the assessment takes into account Aegon's legal position (i.e. limited partner or general partner) and any substantive removal rights held by other parties. Professional judgment is applied concerning the substantiveness of the removal rights and the magnitude of the exposure to variable returns, leading to the conclusion that Aegon controls some, but not all, of the limited partnerships in which it participates.

Upon consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. The liability is presented in the consolidated financial statements as investment contracts for account of policyholders. Where no repurchase obligation exists, the participations held by third parties are presented as non-controlling interests in equity. The assets allocated to participations held by third parties or by the Group on behalf of policyholders are presented in the consolidated financial statements as investments for account of policyholders.

Equity instruments issued by the Group that are held by investment funds are eliminated on consolidation. However, the elimination is reflected in equity and not in the measurement of the related financial liabilities towards policyholders or other third parties.

**Structured entities**

A structured entity is defined in IFRS 12 as "An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements." In these instances the tests and indicators to assess control provided by IFRS 10 have more focus on the purpose and design of the investee (with relation to the relevant activities that most significantly affect the structured entity) and the exposure to variable returns, which for structured entities lies in interests through e.g. derivatives, and will not be focused on entities that are controlled by

voting rights.

Structured entities that are consolidated include certain mortgage backed securitization deals, where Aegon was involved in the design of the structured entities and also has the ability to use its power to affect the amount of the investee's returns. Other factors that contribute to the conclusion that consolidation of these entities is required includes consideration of whether Aegon fully services the investees and can therefore influence the defaults of the mortgage portfolios and the fact that in these cases the majority of risks are maintained by Aegon.

Structured entities that are not consolidated include general account investments in non-affiliated structured entities that are used for investment purposes.

#### [Non-current assets held for sale and disposal groups](#)

Disposal groups are classified as held for sale if they are available for immediate sale in their present condition, subject only to the customary sales terms of such assets and disposal groups and their sale is considered highly probable. Management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

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Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to their fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognized through a reduction of the carrying value of any goodwill related to the disposal group or the carrying value of certain other non-current, non-financial assets to the extent that the carrying value of those assets exceeds their fair value. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognized upon classification as held for sale, but is recognized as part of the result on disposal if and when a divestment transaction occurs.

Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

**2.3 Foreign exchange translation****a. Translation of foreign currency transactions**

The Group's consolidated financial statements are presented in euros. Items included in the financial statements of individual group companies are recorded in their respective functional currency which is the currency of the primary economic environment in which each entity operates. Transactions in foreign currencies are initially recorded at the exchange rate prevailing at the date of the transaction.

At the reporting date, monetary assets and monetary liabilities in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date, except for own equity instruments in foreign currencies which are translated using historical exchange rates. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

**b. Translation of foreign currency operations**

On consolidation, the financial statements of group entities with a foreign functional currency are translated to euro, the currency in which the consolidated financial statements are presented. Assets and liabilities are translated at the closing rates on the reporting date. Income, expenses and capital transactions (such as dividends) are translated at average exchange rates or at the prevailing rates on the transaction date, if more appropriate. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated at the closing rates on the reporting date.

The resulting exchange differences are recognized in the foreign currency translation reserve, which is part of shareholders' equity. On disposal of a foreign entity the related cumulative exchange differences included in the reserve are recognized in the income statement.

**2.4 Segment reporting**

During 2016 Aegon made changes which affected its segment reporting:

Changes to Aegon's operating and reporting segments (paragraph 2.4.1)

Voluntary changes in accounting policies (paragraph 2.4.2)

Change in measurement of underlying earnings before tax (paragraph 2.4.3)

#### 2.4.1 Changes to Aegon's operating and reporting segments

Aegon's segment reporting in previous years was established by considering the requirements outlined in IFRS 8 Operating Segments. IFRS 8 requires operating segments to be defined in line with how the chief operating decision maker (CODM, i.e. Aegon's Executive Board) manages the business. Between 2010 and 2015 Aegon had the following reportable segments: Americas, the Netherlands, United Kingdom, New Markets and Holdings and other activities. New Markets was established to aggregate Aegon's emerging businesses and global / European initiatives which is a combination of the following operating segments: Central & Eastern Europe, Asia, Spain & Portugal, Asset Management and Variable Annuities Europe (VA Europe). Under IFRS 8 these operating segments were aggregated as one reportable segment due to their respective size.

Given that Aegon changed its managerial view to geographical areas, and underlying businesses have developed since 2010, Aegon has evolved the way it manages its businesses including the internal managerial reports it uses to manage the businesses. Alignment of segment reporting with those changes and developments have been put in place in 2016 reflecting Aegon's announcements related to its strategic plan. Accordingly as of January 1, 2016 Aegon adopted refinements to its segment reporting including presenting the operating segments as described above and introducing a separate presentation of the asset management business. The following will be reported from 2016 onwards:

Americas: one operating segment which covers business units in the United States, Brazil and Mexico, including any of the units' activities located outside these countries;

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the Netherlands;

United Kingdom (including VA Europe);

Central & Eastern Europe;

Spain & Portugal;

Asia: one operating segment which covers businesses operating in Hong Kong, Singapore, China, Japan, India and Indonesia including any of the units' activities located outside these countries;

Asset Management: one operating segment which covers business activities from Aegon Asset Management;

Holding and other activities: one operating segment which includes financing, reinsurance activities, employee and other administrative expenses of holding companies.

The change in segment reporting does not have an impact on the consolidated statement of financial position, the consolidated income statement and results of operations or the consolidated cash flow statement of Aegon N.V.

Aegon's segment information is prepared by consolidating on a proportionate basis Aegon's joint ventures and associated companies. Segment measures are explained and disclosed in note 5 Segment information.

The following tables show the reconciliation between former and new segment reporting, first showing the impact of the segment change and second showing the new segments taking into account the voluntary change in accounting policies as described in note 2.1.2 and finally showing the change in measurement of underlying earnings before tax as described in note 5 Segment information.

The following table presents Aegon's 2015 segment results as previously reported:

			Holding				Joint		
			ventures and				associates		
	The	United	New	and other	Elimina-	Segment	assOCIates	Consoli-	
	America	Netherlands	Kingdom	Markets	activities	tions	total	dated	
							eliminations		
<b>Income statement</b>									
<b>Underlying earnings 2015</b>									
<b>Underlying earnings before tax</b>	1,200	537	125	236	(163)	2	<b>1,939</b>	34	<b>1,973</b>
Fair value items	(589)	175	(27)	8	(68)	-	(500)	(59)	(559)
	(74)	306	95	20	-	-	346	(8)	338

Realized gains / (losses) on investments									
Impairment charges	(43)	(25)	-	(2)	-	-	(70)	(21)	(91)
Impairment reversals	114	5	-	-	-	-	119	-	119
Other income / (charges)	(938)	(22)	27	(47)	-	-	(980)	21	(959)
Run-off businesses Income / (loss) before tax	52	-	-	-	-	-	52	-	52
Income tax (expense) / benefit	(277)	977	220	215	(230)	2	906	(33)	874
<b>Net income / (loss)</b>	<b>(246)</b>	<b>753</b>	<b>218</b>	<b>144</b>	<b>(159)</b>	<b>2</b>	<b>712</b>	<b>-</b>	<b>712</b>
<i>Inter-segment underlying earnings</i>	(220)	(55)	(75)	339	10				

## Revenues

### 2015

Life insurance gross premiums	7,046	2,240	5,650	2,565	4	(106)	17,400	(431)	16,969
Accident and health insurance	2,266	234	47	170	6	(6)	2,717	(14)	2,703
General insurance	-	473	-	244	2	-	720	(80)	640
<b>Total gross premiums</b>	<b>9,312</b>	<b>2,947</b>	<b>5,697</b>	<b>2,979</b>	<b>13</b>	<b>(112)</b>	<b>20,836</b>	<b>(524)</b>	<b>20,311</b>
Investment income	3,680	2,277	2,327	291	387	(385)	8,576	(51)	8,525

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Fee and commission income	1,704	351	43	813	-	(278)	2,633	(195)	2,438
Other revenues	9	-	-	2	7	-	19	(5)	14
<b>Total revenues</b>	<b>14,705</b>	<b>5,575</b>	<b>8,067</b>	<b>4,086</b>	<b>406</b>	<b>(776)</b>	<b>32,064</b>	<b>(775)</b>	<b>31,289</b>
<i>Inter-segment revenues</i>	24	2	-	356	393				

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**Table of Contents**Consolidated financial statements of Aegon N.V. [Notes to the consolidated financial statements](#) [Note 21](#)47

The following table presents Aegon's 2015 segment results after adoption of the refinements of its segment reporting:

<b>Income statement -</b>	Central & Eastern					Holding and other			Elimina- tions		Joint ventures and associates eliminations	Consoli- dated
<b>Underlying earnings</b>	America	The Netherlands	United Kingdom	Europe	Spain & Portugal	Asia	Management	activities	Asset	Segment	Eliminations	dated
<b>2015</b>												
<b>Underlying earnings before tax</b>	1,200	537	122	37	12	20	170	(163)	2	<b>1,939</b>	34	<b>1,973</b>
Fair value items	(589)	175	(25)	-	-	7	-	(68)	-	(500)	(59)	(559)
Realized gains / (losses) on investments	(74)	306	103	2	-	7	3	-	-	346	(8)	338
Impairment charges	(43)	(25)	-	(2)	-	-	-	-	-	(70)	(21)	(91)
Impairment reversals	114	5	-	-	-	-	-	-	-	119	-	119
Other income / (charges)	(938)	(22)	27	(2)	17	(61)	(1)	-	-	(980)	21	(959)
Run-off businesses	52	-	-	-	-	-	-	-	-	52	-	52
<b>Income / (loss) before tax</b>	<b>(277)</b>	<b>977</b>	<b>227</b>	<b>35</b>	<b>29</b>	<b>(27)</b>	<b>172</b>	<b>(230)</b>	<b>2</b>	<b>906</b>	<b>(33)</b>	<b>874</b>
Income tax (expense) / benefit	31	(223)	(2)	(11)	(7)	(3)	(50)	71	-	(194)	33	(162)
<b>Net income / (loss)</b>	<b>(246)</b>	<b>753</b>	<b>225</b>	<b>24</b>	<b>22</b>	<b>(30)</b>	<b>121</b>	<b>(159)</b>	<b>2</b>	<b>712</b>	<b>-</b>	<b>712</b>
	(220)	(55)	(63)	(14)	-	77	264	10				

*Inter-segment  
underlying earnings***Revenues****2015**

Life insurance gross premiums	7,046	2,240	5,851	477	174	1,713	-	4	(106)	17,400	(431)	16,969
Accident and health insurance	2,266	234	47	1	64	105	-	6	(6)	2,717	(14)	2,703
General insurance	-	473	-	164	80	-	-	2	-	720	(80)	640
<b>Total gross premiums</b>	<b>9,312</b>	<b>2,947</b>	<b>5,898</b>	<b>642</b>	<b>317</b>	<b>1,819</b>	<b>-</b>	<b>13</b>	<b>(112)</b>	<b>20,836</b>	<b>(524)</b>	<b>20,311</b>
Investment income	3,680	2,277	2,331	45	41	194	7	392	(391)	8,576	(51)	8,525
Fee and commission income	1,704	351	98	39	13	62	650	-	(284)	2,633	(195)	2,438
Other revenues	9	-	-	-	2	-	-	7	-	19	(5)	14
<b>Total revenues</b>	<b>14,705</b>	<b>5,575</b>	<b>8,327</b>	<b>726</b>	<b>373</b>	<b>2,076</b>	<b>657</b>	<b>412</b>	<b>(787)</b>	<b>32,064</b>	<b>(775)</b>	<b>31,289</b>
<i>Inter-segment revenues</i>	24	2	-	-	-	101	261	399				

**Table of Contents**148 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2**

The following table presents Aegon's 2014 segment results as previously reported:

<b>Income statement -</b>	<b>Holding</b>						<b>Joint ventures and</b>		<b>Consolidated</b>
	<b>The Americas</b>	<b>United Kingdom</b>	<b>New Markets</b>	<b>and other activities</b>	<b>Eliminations</b>	<b>Segment total</b>	<b>associates eliminations</b>		
<b>Underlying earnings 2014</b>									
<b>Underlying earnings before tax</b>	1,134	558	115	196	(139)	1	<b>1,865</b>	(9)	<b>1,856</b>
Fair value items	(497)	(766)	(15)	(6)	(82)	-	(1,366)	2	(1,364)
Realized gains / (losses) on investments	85	431	164	16	-	-	697	(3)	694
Impairment charges	(38)	(19)	-	(43)	-	-	(100)	(23)	(123)
Impairment reversals	58	7	-	-	-	-	66	-	66
Other income / (charges)	(52)	(113)	(49)	(24)	(3)	-	(240)	22	(218)
Run-off businesses	(21)	-	-	-	-	-	(21)	-	(21)
<b>Income / (loss) before tax</b>	<b>669</b>	<b>99</b>	<b>215</b>	<b>139</b>	<b>(223)</b>	<b>1</b>	<b>900</b>	<b>(10)</b>	<b>889</b>
Income tax (expense) / benefit	(79)	(37)	(37)	(50)	60	-	(143)	10	(132)



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<b>Net income / (loss)</b>	<b>590</b>	<b>62</b>	<b>178</b>	<b>89</b>	<b>(164)</b>	<b>1</b>	<b>757</b>	<b>-</b>	<b>757</b>
<i>Inter-segment underlying earnings</i>	(173)	(58)	(59)	272	18				
<b>Revenues 2014</b>									
Life insurance gross premiums	6,461	3,982	4,859	2,015	-	(70)	17,246	(351)	16,896
Accident and health insurance	1,874	233	56	163	6	(6)	2,326	(11)	2,316
General insurance	-	501	-	224	-	-	725	(72)	653
<b>Total gross premiums</b>	<b>8,334</b>	<b>4,716</b>	<b>4,916</b>	<b>2,402</b>	<b>6</b>	<b>(76)</b>	<b>20,298</b>	<b>(433)</b>	<b>19,864</b>
Investment income	3,312	2,568	2,073	234	326	(323)	8,191	(42)	8,148
Fee and commission income	1,485	324	43	623	-	(237)	2,237	(100)	2,137
Other revenues	2	-	-	3	5	-	10	(3)	7
<b>Total revenues</b>	<b>13,134</b>	<b>7,608</b>	<b>7,032</b>	<b>3,262</b>	<b>336</b>	<b>(637)</b>	<b>30,735</b>	<b>(578)</b>	<b>30,157</b>
<i>Inter-segment revenues</i>	16	-	-	292	327				

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**Table of Contents**Consolidated financial statements of Aegon N.V. [Notes to the consolidated financial statements](#) [Note 2149](#)

The following table presents Aegon's 2014 segment results after adoption of the refinements of its segment reporting:

<b>Income statement -</b>	Central & Eastern Europe					Holding and other Asset Management activities			Eliminations		Joint ventures and associates eliminations		Consolidated
<b>Underlying earnings 2014</b>	America	Netherlands	United Kingdom	Spain & Portugal	Europe	Asia	Management	activities	tations	tations	tations	tations	dated
<b>Underlying earnings before tax</b>	1,134	558	125	60	28	(17)	115	(139)	1	<b>1,865</b>	(9)	<b>1,856</b>	
Fair value items	(497)	(766)	(31)	8	-	3	-	(82)	-	(1,366)	2	(1,364)	
Realized gains / (losses) on investments	85	431	164	9	2	5	1	-	-	697	(3)	694	
Impairment charges	(38)	(19)	-	(42)	-	(1)	-	-	-	(100)	(23)	(123)	
Impairment reversals	58	7	-	-	-	-	-	-	-	66	-	66	
Other income / (charges)	(52)	(113)	(49)	(26)	(1)	4	(1)	(3)	-	(240)	22	(218)	
Run-off businesses	(21)	-	-	-	-	-	-	-	-	(21)	-	(21)	
<b>Income / (loss) before tax</b>	<b>669</b>	<b>99</b>	<b>209</b>	<b>9</b>	<b>28</b>	<b>(7)</b>	<b>115</b>	<b>(223)</b>	<b>1</b>	<b>900</b>	<b>(10)</b>	<b>889</b>	
	(79)	(37)	(36)	-	(7)	(9)	(36)	60	-	(143)	10	(132)	

Income tax (expense) / benefit												
<b>Net income / (loss)</b>	<b>590</b>	<b>62</b>	<b>174</b>	<b>9</b>	<b>22</b>	<b>(16)</b>	<b>79</b>	<b>(164)</b>	<b>1</b>	<b>757</b>	<b>-</b>	<b>757</b>

<i>Inter-segment underlying earnings</i>	(173)	(58)	(55)	(17)	-	55	229	18				
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## Revenues

### 2014

Life insurance gross premiums	6,461	3,982	5,056	524	196	1,097	-	-	(70)	17,246	(351)	16,896
--	-------	-------	-------	-----	-----	-------	---	---	------	--------	-------	--------

Accident and health insurance	1,874	233	56	1	60	102	-	6	(6)	2,326	(11)	2,316
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General insurance	-	501	-	152	72	-	-	-	-	725	(72)	653
<b>Total gross premiums</b>	<b>8,334</b>	<b>4,716</b>	<b>5,113</b>	<b>678</b>	<b>328</b>	<b>1,199</b>	<b>-</b>	<b>6</b>	<b>(76)</b>	<b>20,298</b>	<b>(433)</b>	<b>19,864</b>

Investment income	3,312	2,568	2,077	54	49	124	4	332	(329)	8,191	(42)	8,148
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Fee and commission income	1,485	324	94	41	8	53	475	-	(243)	2,237	(100)	2,137
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Other revenues	2	-	-	-	2	-	-	5	-	10	(3)	7
<b>Total revenues</b>	<b>13,134</b>	<b>7,608</b>	<b>7,284</b>	<b>773</b>	<b>387</b>	<b>1,376</b>	<b>479</b>	<b>342</b>	<b>(648)</b>	<b>30,735</b>	<b>(578)</b>	<b>30,157</b>
	16	-	-	-	-	70	228	333				

*Inter-segment  
revenues*

**Table of Contents**150 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2****2.4.2 Voluntary changes in accounting policies**

As described in paragraph 2.1.2, Aegon adopted voluntary changes in accounting policies, effective January 1, 2016. The following table presents the impact of the voluntary changes in accounting policies on the new segments on the comparative numbers for the years ended December 31, 2015 and 2014:

<b>Income statement - Underlying earnings 2015</b>	Am- ster- dam	Neth- er- lands	The King- dom	Central Euro- pean	Spain & Portu- gal	Held in Trust	Other Man- age- ment	Holding and Invest- ment	Eligible Seg- ments	Joint ventures and asso- ciates	Consoli- dated
<b>Underlying earnings before tax</b>	-	-	(150)	-	-	-	-	-	-	(150)	(150)
Fair value items	-	-	-	-	-	-	-	-	-	-	-
Realized gains / (losses) on investments	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	-	-	-	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	-	-	-	-	-	-	-
Other income / (charges)	-	-	(1,274)	-	-	-	-	-	(1,274)	-	(1,274)
Run-off businesses	36	-	-	-	-	-	-	-	36	-	36
<b>Income / (loss) before tax</b>	<b>36</b>	<b>-</b>	<b>(1,423)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,388)</b>	<b>-</b>	<b>(1,388)</b>
Income tax (expense) / benefit	(25)	-	270	-	-	-	-	-	245	-	245
<b>Net income / (loss)</b>	<b>11</b>	<b>-</b>	<b>(1,153)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,143)</b>	<b>-</b>	<b>(1,143)</b>
	-	-	-	-	-	-	-	-	-	-	-

*Inter-segment underlying earnings***Revenues****2015**

## Life insurance gross premiums

	-	-	2,614	-	-	-	-	-	-	2,614	-	2,614
--	---	---	-------	---	---	---	---	---	---	-------	---	-------

## Accident and health insurance

	-	-	-	-	-	-	-	-	-	-	-	-
--	---	---	---	---	---	---	---	---	---	---	---	---

## General insurance

	-	-	2,614	-	-	-	-	-	-	2,614	-	2,614
--	---	---	-------	---	---	---	---	---	---	-------	---	-------

**Total gross premiums**

## Investment income

	-	-	-	-	-	-	-	-	-	-	-	-
--	---	---	---	---	---	---	---	---	---	---	---	---

## Fee and commission income

	-	-	-	-	-	-	-	-	-	-	-	-
--	---	---	---	---	---	---	---	---	---	---	---	---

## Other revenues

	-	-	2,614	-	-	-	-	-	-	2,614	-	2,614
--	---	---	-------	---	---	---	---	---	---	-------	---	-------

**Total revenues**

<i>Inter-segment revenues</i>	-	-	-	-	-	-	-	-	-	-	-	-
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**Table of Contents**Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2151**

<b>Income statement -</b>											Joint	Consoli-		
<b>Underlying earnings</b>											ventures and	Associates		
<b>2014</b>	The	United	Kingdom	Euro-	Portugal	Spain	&	Holland	Belgium	Luxembourg	Other	Segment	Total	dated
	America	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands	Netherlands
<b>Underlying earnings before tax</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value items	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Realized gains / (losses) on investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income / (charges)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Run-off businesses	27	-	-	-	-	-	-	-	-	-	-	27	-	27
<b>Income / (loss) before tax</b>	<b>27</b>	-	-	-	-	-	-	-	-	-	-	<b>27</b>	-	<b>27</b>
Income tax (expense) / benefit	(18)	-	-	-	-	-	-	-	-	-	-	(18)	-	(18)
<b>Net income / (loss)</b>	<b>9</b>	-	-	-	-	-	-	-	-	-	-	<b>9</b>	-	<b>9</b>
<i>Inter-segment underlying earnings</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Revenues</b>														
<b>2014</b>														
Life insurance gross premiums	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Accident and health insurance

General insurance	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total gross premiums</b>	-	-	-	-	-	-	-	-	-	-	-	-

Investment income	-	-	-	-	-	-	-	-	-	-	-	-
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Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-
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Other revenues	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	-	-	-	-	-	-	-	-	-	-	-	-

<i>Inter-segment revenues</i>	-	-	-	-	-	-	-	-	-	-	-	-
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**Table of Contents**152 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2****2.4.3 Change in measurement of underlying earnings before tax**

As described in note 5 Segment Reporting, Aegon made changes in the measurement of underlying earnings before tax by presenting the impacts from assumption updates as part of other income/ (charges) rather than as part of underlying earnings before tax or fair value items. In addition, the impact from updates to actuarial assumptions, as well as model updates and updates to economic assumptions both previously recorded in fair value items, are recorded in Other income / (charges) as of 2016.

The following table presents the impact of the changes in measurement of actuarial assumption updates, as implemented in 2016, on the comparative numbers for the years ended December 31, 2015 and 2014:

<b>Income statement -</b>												
<b>Underlying earnings 2015</b>	Americas	Netherlands	Kingdom of the Netherlands	United Kingdom	Eastern Europe	Spain & Portugal	Central & Eastern Europe	Management	Holdings and other activities	Financing	Joint ventures and associates	Consolidated
<b>Underlying earnings before tax</b>	77	-	-	-	-	-	-	-	-	-	77	77
Fair value items	(103)	(49)	-	-	-	-	-	-	-	-	(151)	(151)
Realized gains / (losses) on investments	-	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	-	-	-	-	-	-	-	-
Other income / (charges)	25	49	-	-	-	-	-	-	-	-	74	74
Run-off businesses	-	-	-	-	-	-	-	-	-	-	-	-
<b>Income / (loss) before tax</b>	-	-	-	-	-	-	-	-	-	-	-	-
Income tax (expense) / benefit	-	-	-	-	-	-	-	-	-	-	-	-

**Net income / (loss)**

*Inter-segment underlying earnings*

- - - - -

**Revenues**

**2015**

Life insurance gross premiums - - - - -

Accident and health insurance - - - - -

General insurance - - - - -

**Total gross premiums** - - - - -

Investment income - - - - -

Fee and commission income - - - - -

Other revenues - - - - -

**Total revenues** - - - - -

*Inter-segment revenues* - - - - -

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**Table of Contents**Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2153**

<b>Income statement -</b>												
<b>Underlying earnings</b>	Amer-	Nether-	Kingdom	Central	Spain	and	Other	Finland	Segment	Joint	Consoli-	
<b>2014</b>	ica	lands		Europe	&	Asia	Management	activities	eliminations	ventures and	dated	
<b>Underlying earnings before tax</b>	141	-	-	-	-	-	-	-	-	141	-	141
Fair value items	4	-	-	-	-	-	-	-	-	4	-	4
Realized gains / (losses) on investments	-	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	-	-	-	-	-	-	-	-
Other income / (charges)	(151)	-	-	-	-	-	-	-	-	(151)	-	(151)
Run-off businesses	5	-	-	-	-	-	-	-	-	5	-	5
<b>Income / (loss) before tax</b>	-	-	-	-	-	-	-	-	-	-	-	-
Income tax (expense) / benefit	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net income / (loss)</b>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Inter-segment underlying earnings</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Revenues</b>												
<b>2014</b>												
Life insurance gross premiums	-	-	-	-	-	-	-	-	-	-	-	-

Accident and health insurance	-	-	-	-	-	-	-	-	-	-	-	-
General insurance	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total gross premiums</b>	-	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Inter-segment revenues</i>	-	-	-	-	-	-	-	-	-	-	-	-

## 2.5 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterpart.

## 2.6 Intangible assets

### a. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and is measured as the positive difference between the acquisition cost and the Group's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary is disposed.

### b. Value of business acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA). The Group also recognizes VOBA when it acquires a portfolio of investment contracts with discretionary participation features.

VOBA is amortized over the useful life of the acquired contracts, based on either the expected future premiums, revenues or the expected gross profit margins. The amortization period and pattern are reviewed at each reporting date; any change in estimates is recorded in the income statement. For all products, VOBA, in conjunction with deferred policy acquisition costs (DPAC) where appropriate, is assessed for recoverability on a country-by-country basis and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test for each reporting period.



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When unrealized gains or losses arise on available-for-sale assets, VOBA is adjusted to equal the effect that the realization of the gains or losses (through a sale or impairment) would have had on VOBA. The adjustment is recognized directly in shareholders' equity. VOBA is derecognized when the related contracts are settled or disposed.

**c. Future servicing rights**

On the acquisition of a portfolio of investment contracts without discretionary participation features under which Aegon will render investment management services, the present value of future servicing rights is recognized as an intangible asset. Future servicing rights can also be recognized on the sale of a loan portfolio or the acquisition of insurance agency activities.

The present value of the future servicing rights is amortized over the servicing period and is subject to impairment testing. It is derecognized when the related contracts are settled or disposed.

Where applicable, Aegon recognizes other intangibles on the acquisition of a business combination such as those related to customer relationships. This can include customer contracts, distribution agreements and client portfolios. For these intangibles the present value of future cash flows are recognized and amortized in the period when future economic benefits arise from these intangibles. These intangible assets are also presented under future servicing rights.

**d. Software and other intangible assets**

Software and other intangible assets are recognized to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in the income statement.

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

**2.7 Investments**

General account investments comprise financial assets, excluding derivatives, as well as investments in real estate.

**a. Financial assets, excluding derivatives**

Financial assets are recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

## Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the Group's investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances the Group designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments, that are not quoted in an active market and that the Group does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale.

All remaining non-derivative financial assets are classified as available-for-sale.

## Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and financial assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income

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statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

**Amortized cost**

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

**Fair value**

The consolidated financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the values are provided in the notes to the financial statements.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the reporting date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. The valuation techniques that include unobservable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

**Derecognition**

A financial asset is derecognized when the contractual rights to the asset's cash flows expire and when the Group retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full without delay to a third party and either: has transferred the asset and substantially all the risks and rewards of ownership, or has neither transferred nor retained all the risks and rewards but has transferred control of the asset. Financial assets of which the Group has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Group's continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders' equity is also recognized in the income statement.



### Security lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash (collateral) received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash (collateral) paid by Aegon. The difference between sale and repurchase price is treated as investment income. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

### Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

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**b. Real estate**

Investments in real estate include property held to earn rentals or for capital appreciation, or both. Investments in real estate are presented as **Investments** . Property that is occupied by the Group and that is not intended to be sold in the near future is classified as real estate held for own use and is presented in **Other assets and receivables** .

All property is initially recognized at cost. Such cost includes the cost of replacing part of the real estate and borrowing cost for long-term construction projects if recognition criteria are met. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount.

On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

**Maintenance costs and other subsequent expenditure**

Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

**2.8 Investments for account of policyholders**

Investments held for account of policyholders consist of investments in financial assets as well as investments in real estate.

Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. Investments for account of policyholders are valued at fair value through profit or loss.

**2.9 Derivatives****a. Definition**

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Group considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant

insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. Derivatives for which the contractual obligation can only be settled by exchanging a fixed amount of cash for a fixed amount of Aegon N.V. equity instruments are accounted for in shareholders' equity.

#### b. Measurement

All derivatives recognized on the statement of financial position are carried at fair value.

The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible.

#### c. Hedge accounting

As part of its asset liability management, the Group enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is

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evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered highly effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item.

For hedge accounting purposes, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

**Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the profit and loss account over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

**Cash flow hedges**

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecasted transaction or a recognized asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognized in the related revaluation reserve in shareholders equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in shareholders equity is released to the income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in shareholders equity is included in the initial cost of the asset or liability.

**Net investment hedges**

Net investment hedges are hedges of currency exposures on a net investment in a foreign operation. To the extent that the hedge is effective, the change in the fair value of the hedging instrument is recognized in shareholders equity. Any ineffectiveness is recognized in the income statement. The amount in shareholders equity is released to the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a fair value hedge, the derivative continues to be carried on the statement of financial position with changes in its fair value recognized in the income statement. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders equity is recognized immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

**2.10 Investments in joint arrangements**

In general, joint arrangements are contractual agreements whereby the Group undertakes, with other parties, an economic activity that is subject to joint control. Joint control exists when it is contractually agreed to share control over an economic activity. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Aegon has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If joint ventures are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the joint venture and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded in other comprehensive income by the joint venture are reflected in other reserves in shareholders' equity, while the share in the joint ventures net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the joint ventures equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

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Gains and losses on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the joint venture are not eliminated.

On disposal of an interest in a joint venture, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

**2.11 Investments in associates**

Entities over which the Group has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary, are accounted for using the equity method. Interests held by venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by the Group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Interests in associates are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the associate and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded in other comprehensive income by the associate are reflected in other reserves in shareholders' equity, while the share in the associate's net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the associate's equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the associate are not eliminated.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

**2.12 Reinsurance assets**

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for claims/benefits incurred on contracts written by the Group (outgoing reinsurance). Reinsurance assets are also held as part of exiting the business. For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Aegon is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying insurance contracts will continue to be reported on the consolidated statement of financial position during the contractual term of the underlying contracts.

Reinsurance premiums, commissions and claim settlements are accounted for in the same way as the original contracts for which the reinsurance was concluded. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

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DPAC relates to all insurance contracts as well as investment contracts with discretionary participation features and represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts.

Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on factors such as expected gross profit margins. For products sold in the United States with amortization based on expected gross profit margins or revenues, the amortization period and pattern are reviewed at each reporting date and any change in estimates is recognized in the income statement. Estimates include, but are not limited to: an economic perspective in terms of future returns on bond and equity instruments, mortality, morbidity and lapse assumptions, maintenance expenses and expected inflation rates.

For all products, DPAC, in conjunction with VOBA where appropriate, is assessed for recoverability at least annually on a country-by-country basis as part of the liability adequacy test for each reporting period. If appropriate, the assumptions included in the determination of estimated gross profits or revenues are adjusted. The portion of DPAC that is determined not to be recoverable is charged to the income statement.

For products sold in the United States, when unrealized gains or losses arise on available-for-sale assets, DPAC is adjusted to equal the effect that the realization of the gains or losses (through sale or impairment) would have had on its measurement. This is recognized directly in the related revaluation reserve in shareholders' equity.

DPAC is derecognized when the related contracts are settled or disposed.

**b. Deferred cost of reinsurance**

A deferred cost of reinsurance is established when Aegon enters into a reinsurance transaction, except for reinsurance transactions that are entered into as part of a plan to exit a business. When Aegon enters into a reinsurance contract as part of a plan to exit a business, an immediate loss is recognized in the income statement. Upon reinsurance, Aegon is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying contracts.

The difference, if any, between amounts paid in a reinsurance transaction and the amount of the liabilities relating to the underlying reinsured contracts is part of the deferred cost of reinsurance.

When losses on buying reinsurance are deferred, the amortization is based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

**c. Deferred transaction costs**

Deferred transaction costs relate to investment contracts without discretionary participation features under which Aegon will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognized as an asset if they can be identified separately and measured reliably



and if it is probable that they will be recovered.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the carrying amount of the financial liability.

The deferred transaction costs are amortized in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. The amortization is recognized in the income statement. Deferred transaction costs are subject to impairment testing at least annually.

Deferred transaction costs are derecognized when the related contracts are settled or disposed.

#### **2.14 Other assets and receivables**

Other assets include trade and other receivables, prepaid expenses, equipment and real estate held for own use. Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost.

Equipment is initially carried at cost, depreciated on a straight line basis over its useful life to its residual value and is subject to impairment testing. The accounting for real estate held for own use is described in note 2.7 Investments.

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**2.15 Cash and cash equivalents**

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments generally with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

**2.16 Impairment of assets**

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinite useful life that are not amortized, are tested at least annually.

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

**a. Impairment of non-financial assets**

Assets are tested individually for impairment when there are indications that the asset may be impaired. For goodwill and intangible assets with an undefined life, an impairment test is performed at least once a year or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary.

The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its fair value less cost of disposal. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties. The valuation utilizes the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates. Refer to note 31 Intangible assets for more details.

Impairment losses are charged to shareholders' equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement. Impairment of deferred policy acquisition costs is included in note 15 Impairment charges/(reversals).

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally and cannot be larger than an operating segment. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets' recoverable amounts.

#### **b. Impairment of debt instruments**

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

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For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed what the amortized cost would have been at the reversal date, had the impairment not been recognized.

**c. Impairment of equity instruments**

For equity instruments, objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in fair value below initial cost is also considered objective evidence of impairment and always results in a loss being recognized in the income statement. Significant or prolonged decline is defined as an unrealized loss position for generally more than six months or a fair value of less than 80% of the cost price of the investment. Equity investments are impaired to the asset's fair value and any unrealized gain or loss previously recognized in shareholders' equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement. If an available-for-sale equity security is impaired based upon Aegon's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon Aegon's impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

Impairment losses on equity instruments cannot be reversed.

**d. Impairment of reinsurance assets**

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer's current and expected future financial conditions plus any collateral held in trust for Aegon's benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognized in the income statement.

**2.17 Equity**

Financial instruments that are issued by the Group are classified as equity if they represent a residual interest in the assets of the Group after deducting all of its liabilities and the Group has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. In addition to common shares, the Group has issued perpetual securities. Perpetual securities have no final maturity date, repayment is at the discretion of Aegon and for junior perpetual capital securities, Aegon has the option to defer coupon payments at its discretion. The perpetual

capital securities are classified as equity rather than debt, are measured at par and those that are denominated in US dollars are translated into euro using historical exchange rates.

Non-cumulative subordinated notes are identified as a compound instrument due to the nature of this financial instrument. For these non-cumulative subordinated notes, Aegon has an unconditional right to avoid delivering cash or another financial asset to settle the coupon payments. The redemption of the principal is however not at the discretion of Aegon and therefore Aegon has a contractual obligation to settle the redemption in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for Aegon. Compound instruments are separated into liability components and equity components. The liability component for the non-cumulative subordinated notes is equal to the present value of the redemption amount and carried at amortized cost using the effective interest rate method. The unwinding of the discount of this component is recognized in the income statement. The liability component is derecognized when the Group's obligation under the contract expires, is discharged or is cancelled. At initial recognition the equity component is assigned the residual amount after deducting the liability component from the fair value of the instrument as a whole. The equity component in US dollars is translated into euro using historical exchange rates.

Incremental external costs that are directly attributable to the issuing or buying back of own equity instruments are recognized in equity, net of tax. For compound instruments incremental external costs that are directly attributable to the issuing or buying back of the compound instruments are recognized proportionate to the equity component and liability component, net of tax.

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Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Treasury shares are shares issued by Aegon N.V. that are held by Aegon, one of its subsidiaries or by another entity controlled by Aegon. Treasury shares are deducted from Group equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders' equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per common share.

**2.18 Trust pass-through securities and (subordinated) borrowings**

A financial instrument issued by the Group is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the Group.

Trust pass-through securities and (subordinated) borrowings are initially recognized at their fair value including directly attributable transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through profit or loss as they are managed and evaluated on a fair value basis. The liability is derecognized when the Group's obligation under the contract expires, is discharged or is cancelled.

Subordinated borrowings include the liability component of non-cumulative subordinated notes. These notes are identified as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into equity components and liability components. The liability component for the non-cumulative subordinated notes is related to the redemption amount. For further information on the accounting policy of the non-cumulative subordinated notes refer to note 2.17 Equity.

**2.19 Insurance contracts**

Insurance contracts are accounted for under IFRS 4 Insurance Contracts. In accordance with this standard, Aegon continues to apply the existing accounting policies that were applied prior to the adoption of IFRS with certain modifications allowed by IFRS 4 for standards effective subsequent to adoption. Aegon applies, in general, non-uniform accounting policies for insurance liabilities and intangible assets to the extent that it was allowed under Dutch Accounting Principles. As a result, specific methodologies applied may differ between Aegon's operations as they may reflect local regulatory requirements and local practices for specific product features in these local markets. At the time of IFRS adoption, Aegon was applying US GAAP for its United States operations whereas in the Netherlands and the United Kingdom, Aegon was applying Dutch Accounting Principles. Since adoption of IFRS, Aegon has considered new and amended standards in those GAAPs which have become effective subsequent to the date of transition to IFRS. If any changes are made to current accounting policies for insurance contracts, these will be in accordance with IFRS 4.

Insurance contracts are contracts under which the Group accepts a significant risk other than a financial risk from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he

or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled. Within the United States, the Netherlands and the United Kingdom, substantially modified contracts are accounted for as an extinguishment of the original liability and the recognition of a new liability.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by the Group prior to the transition to IFRS and with consideration of standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. In order to reflect the specific nature of the products written, subsidiaries are allowed to apply local accounting principles to the measurement of insurance contracts. All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

#### [a. Life insurance contracts](#)

Life insurance contracts are insurance contracts with life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

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Liabilities arising from traditional life insurance products that are offered by Aegon, particularly those with fixed and guaranteed account terms, are typically measured using the net premium method. Under this method the liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

Depending on local accounting principles, the liability may include amounts for future services on contracts where the policy administration charges are higher in the initial years than in subsequent years.

Terms and conditions, including participation features and expected lapse rates, are considered when establishing the insurance liabilities. Where the Group has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the reporting date for future distribution to policyholders.

In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.19 c Embedded derivatives or, if bifurcated from the host contract, as described in note 2.9 Derivatives.

**b. Life insurance contracts for account of policyholders**

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders.

The liability for the insurance contracts for account of policyholders is measured at the policyholder account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. If applicable, the liability representing the nominal value of the policyholder unit account is amortized over the term of the contract so that interest on actuarial funding is at an expected rate of return.

**c. Embedded derivatives**

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives.

**Guaranteed minimum benefits**

Certain life insurance contracts, issued by the Group, contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives.

In the United States, the additional liability for guaranteed minimum benefits that are not bifurcated is determined each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in



calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

In the Netherlands, an additional liability is established for guaranteed minimum investment returns on group pension plans with profit sharing and on traditional insurance contracts, with profit sharing based on an external interest index, that are not bifurcated. These guarantees are measured at fair value.

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Shadow accounting allows that all gains and losses on investments affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of VOBA or DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized through other comprehensive income in the revaluation reserve, together with the unrealized gain or loss.

Some profit sharing schemes issued by the Group entitle the policyholder to a bonus which is based on the actual total return on specific assets held. To the extent that the bonus relates to gains or losses on available-for-sale investments for which the unrealized gains or losses are recognized in the revaluation reserve in equity, shadow accounting is applied. This means that the increase in the liability is also charged to equity to offset the unrealized gains rather than to the income statement.

**e. Non-life insurance contracts**

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the coverage period of the premium and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities. Discounting of liabilities is generally applied when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

**f. Liability adequacy testing**

At each reporting date, the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of VOBA and DPAC, is assessed using a liability adequacy test.

All tests performed within the Group are based on current estimates of all contractual future cash flows, including related cash flows from policyholder options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling. Aggregation levels are set either on geographical jurisdiction or at the level of portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio. Specifically, in the Netherlands the liability adequacy test is performed on a consolidated basis for all life and non-life business, whereas in the Americas and the UK it is performed at the level of the portfolio of contracts. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on management's expectation of the future return on investments. These future returns on investments take into account management's best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity. Aegon the Netherlands, as required locally, adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of the assets that are measured at amortized cost in the statement of financial position.

To the extent that the account balances are insufficient to meet future benefits and expenses, any resulting deficiency is recognized in the income statement, initially by impairing the DPAC and VOBA and subsequently by establishing an insurance liability for the remaining loss, unless shadow loss recognition has taken place. In the Netherlands, in situations where market interest rates for the valuation of debt securities leads to a change in the revaluation reserve, and where the result of using the same assumptions for the liabilities could lead to a deficiency in the liability adequacy test that should be recognized in the income statement, shadow loss recognition is applied. Shadow loss recognition is applied to the extent that the deficiency of the insurance liabilities relates to the revaluation of debt securities as a result of movements in interest rates, the addition to the insurance liabilities is then offset against the revaluation reserve. If in subsequent periods such a deficiency of the insurance liability is no longer applicable, shadow loss recognition is reversed via the revaluation reserve.

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The adequacy of the non-life insurance liability is tested at each reporting date. Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits.

The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

**2.20 Investment contracts**

Contracts issued by the Group that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Group are accounted for as investment contracts. Depending on whether the Group or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is cancelled.

**a. Investment contracts with discretionary participation features**

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investment contracts, specific investments held by the Group or on the issuer's net income. If the Group has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Some unitized investment contracts provide policyholders with the option to switch between funds with and without discretionary participation features. The entire contract is accounted for as an investment contract with discretionary participation features if there is evidence of actual switching resulting in discretionary participation benefits that are a significant part of the total contractual benefits.

**b. Investment contracts without discretionary participation features**

At inception, investment contracts without discretionary features are carried at amortized cost.

Investment contracts without discretionary participation features are carried at amortized cost based on the expected cash flows and using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the income statement. For these investment contracts deposit accounting is applied, meaning that deposits are not reflected as premium income, but are recognized as part of the financial liability.

The consolidated financial statements provide information on the fair value of all financial liabilities, including those carried at amortized cost. As these contracts are not quoted in active markets, their value is determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. For investment contracts without discretionary participation features that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

**c. Investment contracts for account of policyholders**

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholder. Also included are participations held by third parties in consolidated investment funds that meet the definition of a financial liability.

Investment contracts for account of policyholders are designated at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Group recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and recognized as a deferred revenue liability, refer to note 2.23 Deferred gains.

## **2.21 Provisions**

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred.

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The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date, considering all its inherent risks and uncertainties, as well as the time value of money. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

**Onerous contracts**

With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligations exceed the expected future economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

**2.22 Assets and liabilities relating to employee benefits****a. Short-term employee benefits**

A liability is recognized for the undiscounted amount of short-term employee benefits expected to be settled within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which the service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

**b. Post-employment benefits**

The Group has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when the Group has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

**Defined contribution plans**

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset is recognized to the extent that the contribution paid exceeds the amount due for services provided.

**Defined benefit plans****Measurement**

The defined benefit obligation is based on the terms and conditions of the plan applicable on the reporting date. In measuring the defined benefit obligation the Group uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables. The benefits are discounted using an interest rate based on the market yield for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future salary increases, mortality rates and

price inflation. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected. Plan improvements (either vested or unvested) are recognized in the income statement at the date when the plan improvement occurs.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the Group's creditors. They are measured at fair value and are deducted from the defined benefit obligation in determining the amount recognized on the statement of financial position.

### **Profit or loss recognition**

The cost of the defined benefit plans are determined at the beginning of the year and comprise the following components:

Current year service cost which is recognized in profit or loss; and

Net interest on the net defined benefit liability (asset) which is recognized in profit or loss.

Remeasurements of the net defined benefit liability (asset) which is recognized in other comprehensive income are revisited quarterly and shall not be reclassified to profit or loss in a subsequent period.

Deducted from current year service cost are discretionary employee contributions and employee contributions that are linked to service (those which are independent of the number of years of service). Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the applicable discount rate. Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest cost on the defined benefit obligation. Whereby interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the applicable discount rate. The difference between the interest income on plan assets and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

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Remeasurements of the net defined benefit liability (asset) comprise of:

Actuarial gains and losses;

The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

**Past service cost and gains or losses on settlements**

Gains or losses on curtailments or settlements of a defined benefit plan comprise of the difference between: Past service cost is the change in the present value of the defined benefit obligation for employee service, resulting from a plan amendment or curtailment.

Gains or losses on curtailments or settlements of a defined benefit plan comprise of the difference between:

The present value of the defined benefit obligation being settled, as determined on the date of settlement; and  
The settlement price, including any plan assets transferred and any payments made directly by Aegon in connection with the settlement.

Aegon recognizes (in the income statement) gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

**c. Share-based payments**

The Group has issued share-based plans that entitle employees to receive equity instruments issued by the Group or cash payments based on the price of Aegon N.V. common shares. Some plans provide employees of the Group with the choice of settlement.

For share option plans that are equity-settled, the expense recognized is based on the fair value on the grant date of the share options, which does not reflect any performance conditions other than conditions linked to the price of the Group's shares. For long-term share-based plans where employees are granted the conditional right to receive Aegon shares if certain performance indicators are met and depending on continued employment of the individual employee, expenses recognized are based on the fair value on the grant date of the shares. The fair value is measured at the market price of the entities shares, adjusted to take into account the terms and conditions upon which the shares were granted. For example, where the employee is not entitled to receive dividends during the vesting period, this factor is taken into account when estimating the fair value of the shares granted. For the determination of factors such as expected dividends, market observable data has been considered.

The cost for share option plans and long term incentive plans are recognized in the income statement, together with a corresponding increase in shareholders' equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management's best estimate of the number of shares expected to vest ultimately. For cash settled components (such as net settled component of long-term share-based plans) a liability will be recognized using the fair value of the equity settled award based on the elapsed portion of the vesting period. For modifications of the terms and conditions of equity-settled plans that result in those plans to be classified as cash-settled plans, the liability is recognized using the fair value measured at the modification date. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the



income statement.

Share appreciation right plans are initially recognized at fair value at the grant date, taking into account the terms and conditions on which the instruments were granted. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

Share option plans that can be settled in either shares or cash at the discretion of the employee and/or employer are accounted for as a compound financial instrument, which includes a debt component and an equity component.

### **2.23 Deferred gains**

Initial fees and front-end loadings paid by policyholders and other clients for future investment management services related to investment contracts without discretionary participation features are deferred and recognized as revenue when the related services are rendered.

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Tax assets and liabilities for current and prior periods are measured at the amount that is expected to be received from or paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the reporting date.

**b. Deferred tax assets and liabilities**

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognized for tax loss carryforwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon's deferred tax positions at each reporting period to determine if it is probable that the assets will be realized. These reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning opportunities it can utilize to increase the likelihood that the tax assets will be realized. The carrying amount is not discounted and reflects the Group's expectations concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in profit and loss, other comprehensive income or directly in equity.

**2.25 Contingent assets and liabilities**

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

**2.26 Premium income**

Gross premiums, including recurring and single premiums, from life and non-life insurance and investment contracts with discretionary participation features are recognized as revenue when they become receivable. For products where deposit accounting is required, the deposits are not reflected as premium income, but are recognized as part of the financial liability. For these products the surrender charges and charges assessed have been included in gross premiums.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense. Depending on the applicable local accounting principles, bonuses that are used to increase the insured benefits may be recognized as gross premiums. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

## **2.27 Investment income**

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend income on financial assets carried at fair value through profit or loss.

Investment income also includes rental income due, as well as fees received for security lending.

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**Table of Contents**Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 2169****2.28 Fee and commission income**

Fees and commissions from investment management services and mutual funds, services where Aegon acts as service provider (including mortgage loan fee business) and from sales activities are recognized as revenue over the period in which the services are performed or for sales activities where services have been rendered.

**2.29 Policyholder claims and benefits**

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

**2.30 Results from financial transactions**

Results from financial transactions include:

**Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives**

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

**Realized gains and losses on financial investments**

Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.

**Net fair value change of derivatives**

All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net investment in a foreign operation. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

**Net fair value change on for account of policyholder financial assets at fair value through profit or loss**

Net fair value change on for account of policyholder financial assets at fair value through profit or loss includes fair value movements of investments held for account of policyholders (refer to note 2.8 Investments for account of policyholders). The net fair value change does not include interest or dividend income.

**Other**

In addition, results from financial transactions include gains/losses on real estate (general account and account of policyholders), net foreign currency gains/(losses) and net fair value change on borrowings and other financial liabilities and realized gains on repurchased debt.

### **2.31 Impairment charges/(reversals)**

Impairment charges and reversals include impairments and reversals on investments in financial assets, impairments and reversals on the valuation of insurance assets and other non-financial assets and receivables. Impairment of deferred policy acquisition costs is included in note 15 Impairment charges/ (reversals). Refer to note 15 Impairment charges/(reversals).

### **2.32 Interest charges and related fees**

Interest charges and related fees includes interest expense on trust pass-through securities and other borrowings. Interest expense on trust pass-through securities and other borrowings carried at amortized cost is recognized in profit or loss using the effective interest method.

### **2.33 Leases**

Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

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Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

**2.34 Events after the reporting period**

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the reporting date.

Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

**3 Critical accounting estimates and judgment in applying accounting policies**

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

**Valuation of assets and liabilities arising from life insurance contracts**

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions, on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation or on the valuation assumptions (historical cost), without risk margin. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows (including investment returns). To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity.

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

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

## Actuarial and economic assumptions

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

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

Investment assumptions are prescribed by the local regulator, market observable or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States and some of the smaller countries, is the annual long-term growth rate of the underlying assets.

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The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate. In Aegon the Netherlands, the expense basis makes an allowance for planned future cost savings, which are included in the liability adequacy test.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor behavior. For policies with account value guarantees based on equity market movements, a dynamic lapse assumption is utilized to reflect policyholder behavior based on whether the guarantee is in the money. Own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

**Actuarial assumption and model updates**

Assumptions are reviewed periodically, typically in the third quarter, based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions. Similarly, the models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology.

During 2016, Aegon implemented actuarial assumption and model updates resulting in a net EUR 118 million charge to income before tax (2015: EUR 131 million charge). Refer to note 5 Segment information for further details.

For the years 2014 through 2016, Aegon kept its long-term equity market return assumption for the estimated gross profits on variable life and variable annuity products in the Americas at 8%. During the three year period, the long-term assumption for 10-year US Treasury yields was 4.25% and the uniform grading period was 10 years. Aegon's assumed returns for US separate account bond fund are 4% over the next 10 years and 6% thereafter. The 90-day Treasury yield was 0.51%, 0.16%, and 0.04% at December 31, 2016, 2015 and 2014, respectively. During 2016 the Treasury yield was assumed to have a uniform grading over 10 years to 2.5%. In 2015, the Treasury yield was assumed to remain level for six months followed by a 9.5 year grade to 2.5%, while in 2014, it was assumed to remain level for the next two years followed by an eight year grade to 2.5%. On a quarterly basis, the estimated gross profits are updated for the difference between the estimated market return and the actual market return.

**Sensitivity on variable annuities and variable life insurance products in the United States**

A 1% decrease in the expected long-term equity growth rate with regard to Aegon's variable annuities and variable life insurance products in the United States would result in a decrease in DPAC and VOBA balances and reserve strengthening of approximately EUR 158 million (2015: EUR 147 million). The DPAC and VOBA balances for these products in the United States amounted to EUR 3.0 billion at December 31, 2016 (2015: EUR 3.0 billion).



A relative increase ranging of 10% to the mortality assumption (in 2015 a range from 5% to 10% was used, dependent on product and characteristics of the block of business), would reduce net income by approximately EUR 343 million (2015: EUR 103 million). A relative 20% increase in the lapse rate assumption would increase net income by approximately EUR 93 million (2015: EUR 76 million).

Any reasonably possible changes in the other assumptions Aegon uses to determine EGP margins (i.e. maintenance expenses, inflation and disability) would reduce net income by less than EUR 19 million (per assumption change) (2015: EUR 37 million).

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**Table of Contents**172 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 3****Determination of fair value and fair value hierarchy**

The following is a description of Aegon's methods of determining fair value, and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability; or

In the absence of a principal market, in the most advantageous market for the asset or liability.

Aegon uses the following hierarchy for measuring and disclosing of the fair value of assets and liabilities:

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

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

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

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

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. Aegon maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and therefore less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

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

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities, the derivation of fair value is more judgmental. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is

driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an at arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the table headed "Effect of changes in significant unobservable assumptions to reasonably possible alternatives" in note 47 Fair Value. While Aegon believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize Aegon's fair value hierarchy, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modeled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

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**Table of Contents**Consolidated financial statements of Aegon N.V. [Notes to the consolidated financial statements](#) [Note 4173](#)**4 Financial risks****General**

As an insurance group, Aegon is exposed to a variety of risks. Aegon's largest exposures are to changes in financial markets (e.g. foreign currency, interest rate, credit and equity market risks) that affect the value of the investments, liabilities from products that Aegon sells, deferred expenses and value of business acquired. Other risks include insurance related risks, such as changes in mortality and morbidity, which are discussed in note 36 Insurance contracts. Aegon manages risk at local level where business is transacted, based on principles and policies established at the Group level. Aegon's integrated approach to risk management involves similar measurement of risk and scope of risk coverage to allow for aggregation of the Group's risk position.

To manage its risk exposure, Aegon has risk policies in place. Many of these policies are group-wide while others are specific to the unique situation of local businesses. The Group level policies limit the Group's exposure to major risks such as equity, interest rates, credit, and currency. The limits in these policies in aggregate remain within the Group's overall tolerance for risk and the Group's financial resources. Operating within this policy framework, Aegon employs risk management programs including asset liability management (ALM) processes and models and hedging programs (which are largely conducted via the use of derivatives). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but are also part of the Group's overall risk strategy.

Aegon operates a Derivative Use Policy to govern its usage of derivatives. This policy establishes the control, authorization, execution and monitoring requirements of the usage of such instruments. In addition, the policy stipulates necessary mitigation of credit risk created through derivatives management tools. For derivatives, credit risk is normally mitigated by requirements to post collateral via credit support annex agreements or through a central clearinghouse.

As part of its risk management programs, Aegon takes inventory of its current risk position across risk categories. Aegon also measures the sensitivity of net income and shareholders' equity under both deterministic and stochastic scenarios. Management uses the insight gained through these 'what if?' scenarios to manage the Group's risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated as necessary.

Results of Aegon's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios. For each type of market risk, the analysis shows how net income and shareholders' equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon's accounting policies. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. The shock may also affect the measurement of assets and liabilities based on assumptions that are not observable in the market. For example,

a shock in interest rates may lead to changes in the amortization schedule of DPAC or to increased impairment losses on equity investments. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analyses.

The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on locked-in assumptions or on management's long-term expectations. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and shareholders' equity. Aegon has classified a significant part of its investment portfolio as available-for-sale, which is one of the main reasons why the economic shocks tested have a different impact on net income than on shareholders' equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked directly to the revaluation reserves in shareholders' equity, unless impaired. As a result, economic sensitivities predominantly impact shareholders' equity but leave net income unaffected. The effect of movements of the revaluation reserve on capitalization ratios and capital adequacy are minimal. Aegon's target ratio for the composition of its capital base is based on shareholders' equity excluding the revaluation reserve.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon's future shareholders' equity or earnings. The analysis does not take into

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account the impact of future new business, which is an important component of Aegon's future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

Concentration risk for financial risks are measured and managed at the following levels:

Concentration per risk type: Risk exposures are measured per risk type as part of Aegon's internal economic framework. A risk tolerance framework is in place which sets risk limits per risk type and which promotes diversification across risk types;

Concentration per counterparty: Risk exposure is measured and risk limits are in place per counterparty as part of the Counterparty Name Limit Policy; and

Concentration per sector, geography and asset class: Aegon's investment strategy is translated in investment mandates for its internal and external asset managers. Through these investment mandates limits on sector, geography and asset class are set. Compliance monitoring of the investment mandates is done by the insurance operating companies.

Moreover, concentration of financial risks are measured in Aegon business planning cycle. As part of business planning, the resilience of Aegon's business strategy is tested in several extreme event scenarios. In the Depression and Inflation scenario, financial markets are stressed without assuming diversification across different market factors. As part of the Extreme Event Scenario testing, certain management actions are implemented when management deems this necessary.

**Currency exchange rate risk**

As an international group, Aegon is subject to foreign currency translation risk. Foreign currency exposure exists mainly when policies are denominated in currencies other than the issuer's functional currency. Currency risk in the investment portfolios backing insurance and investment liabilities is managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and self-imposed capital requirements. Therefore, currency exchange rate fluctuations will affect the level of shareholders' equity as a result of translation of subsidiaries into euro, the Group's presentation currency. Aegon holds the remainder of its capital base (perpetual capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of the country units. This balancing mitigates currency translation impacts on shareholders' equity and leverage ratios. Aegon does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As Aegon has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. Aegon may experience significant changes in net income and shareholders' equity because of these fluctuations.

Aegon operates a Currency Risk Policy which applies currency risk exposure limits both at Group and regional levels, and under which direct currency speculation or program trading by country units is not allowed unless explicit approval has been granted by the Group Risk and Capital Committee and the Management Board. Assets should be held in the functional currency of the business written or hedged back to that currency. Where this is not possible or

practical, remaining currency exposure should be sufficiently documented and limits are placed on the total exposure at both group level and for individual country units.

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Information on Aegon's three year historical net income/(loss) and shareholders' equity in functional currency are shown in the table below:

	<b>2016</b>	2015	2014
<b>Net income</b>			
Americas (in USD)	618	(261)	796
The Netherlands (in EUR)	418	753	62
United Kingdom (in GBP)	(346)	(674)	140
Central & Eastern Europe (in EUR)	19	24	9
Spain & Portugal (in EUR)	(2)	22	22
Asia (in USD)	(14)	(33)	(21)
Asset Management (in EUR)	97	121	79
<b>Equity in functional currency</b>			
Americas (in USD)	17,103	17,609	21,254
The Netherlands (in EUR)	5,101	5,263	4,745
United Kingdom (in GBP)	1,845	2,981	3,975
Central & Eastern Europe (in EUR)	378	396	401
Spain & Portugal (in EUR)	451	464	783
Asia (in USD)	1,281	674	657
Asset Management (in EUR)	422	444	267

The exchange rates for US dollar and UK pound per euro for each of the last five year ends are set forth in the table below:

<b>Closing rates</b>	<b>2016</b>	2015	2014	2013	2012
USD	1.05	1.09	1.21	1.38	1.32
GBP	0.85	0.74	0.78	0.83	0.81

Aegon Group companies' foreign currency exposure from monetary assets and liabilities denominated in foreign currencies is not material.

The sensitivity analysis in the following table shows an estimate of the effect of movements in the exchange rates of Aegon's non-euro currencies relative to the euro on net income and shareholders' equity.

Sensitivity analysis of net income and shareholders' equity to translation risk

<b>Movement of markets</b> <sup>1)</sup>	Estimated approximate effects on net income <sup>2)</sup>		Estimated approximate effects on shareholders' equity
<b>2016</b>			



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Increase by 15% of USD currencies relative to the euro	87	2,179
Increase by 15% of GBP currencies relative to the euro	(3)	259
Increase by 15% of non-euro currencies relative to the euro	79	2,537
Decrease by 15% of USD currencies relative to the euro	(61)	(1,558)
Decrease by 15% of GBP currencies relative to the euro	(55)	(170)
Decrease by 15% of non-euro currencies relative to the euro	(110)	(1,794)

**2015**

Increase by 15% of USD currencies relative to the euro	71	2,161
Increase by 15% of GBP currencies relative to the euro	(165)	566
Increase by 15% of non-euro currencies relative to the euro	(91)	2,820
Decrease by 15% of USD currencies relative to the euro	(50)	(1,539)
Decrease by 15% of GBP currencies relative to the euro	123	(390)
Decrease by 15% of non-euro currencies relative to the euro	72	(1,993)

<sup>1</sup> The effect of currency exchange movements is reflected as a one-time shift up or down in the value of the non-euro currencies relative to the euro on December 31.

<sup>2</sup> For the sensitivity analysis the book loss of Canada in 2015 has not been taken into account and for 2016 the book loss of the UK annuity portfolio has been excluded.

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Aegon bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the liabilities can offset this risk. For some Aegon country units, local capital markets are not well developed, which prevents the complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

During periods of sustained low interest rates, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided on policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Mortgage loans and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to borrow at lower interest rates and Aegon may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, net income declines as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

Aegon manages interest rate risk closely, taking into account all of the complexity regarding policyholder behavior and management action. Aegon employs sophisticated interest rate measurement techniques and actively uses derivatives and other risk mitigation tools to closely manage its interest rate risk exposure. Aegon operates an Interest Rate Risk policy that limits the amount of interest rate risk to which the Group is exposed. All derivative use is governed by Aegon's Derivative Use Policy. A detailed description on the use of derivatives within Aegon is included in note 24 Derivatives.

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The following table shows interest rates at the end of each of the last five years.

	2016	2015	2014	2013	2012
3-month US LIBOR	1.00%	0.61%	0.26%	0.25%	0.31%
3-month EURIBOR	(0.32%)	(0.13%)	0.08%	0.29%	0.19%
10-year US Treasury	2.43%	2.27%	2.17%	3.03%	1.76%
10-year Dutch government	0.35%	0.79%	0.68%	2.23%	1.50%

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curves on net income and shareholders' equity arising from the impact on general account investments and offset due to liabilities from insurance and investment contracts. In general, increases in interest rates are beneficial to Aegon. However, timing and valuation differences between assets and liabilities may cause short-term reductions in net income as rates rise. The rising interest rates would also cause the fair value of the available-for-sale bond portfolio to decline and the level of unrealized gains could become too low to support recoverability of the full deferred tax asset triggering an allowance charge to income. The offsetting economic gain on the insurance and investment contracts is however not fully reflected in the sensitivities because many of these liabilities are not measured at fair value. The short to medium term reduction in net income due to rising interest rates would be offset by higher net income in later years, all else being equal. Therefore, higher interest rates are not considered a long-term risk to the Group. However, a long sustained period of low interest rates will erode net income due to lower returns earned on reinvestments.

<b>Parallel movement of yield curve</b>	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
<b>2016</b>		
Shift up 100 basis points	364	(2,257)
Shift down 100 basis points	(300)	2,020
<b>2015</b>		
Shift up 100 basis points	390	(4,428)
Shift down 100 basis points	(480)	2,559

The estimated approximate effect on shareholders' equity at December 31, 2016 was EUR 2.2 billion lower compared to 2015 due to the fact that over the course of the year the Netherlands adjusted their interest rate hedge to improve the stability of the capital ratio. Previously the interest rate hedging program focused on stabilizing the IFRS net income. Next to this the UK Annuity portfolio was sold, which led to a reduction of the UK shareholders' equity and thus also to lower interest rate sensitivity (please refer to note 51 business combinations).

**Credit risk**

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon typically bears the risk for investment performance which is equal to the return of principal and interest. Aegon is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy, downturns in real estate values, operational failure and fraud. During financial downturns, Aegon can incur defaults or other reductions in the value of these securities and loans, which could have a materially adverse effect on Aegon's business, results of operations and financial condition. Investments for account of policyholders are excluded as the policyholder bears the credit risk associated with the investments.

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The table that follows shows the Group's maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 49 Transfer of financial assets for further information on collateral given, which may expose the Group to credit risk.

	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agreements	Other collateral	Surplus collateral (or overcollateralization)		Net exposure
								Total collateral	Surplus	
<b>2016</b>										
Debt securities - carried at fair value	103,169	-	-	392	-	-	-	392	-	102,777
Money market and other short-term investments - carried at fair value	7,093	-	815	-	-	-	-	815	27	6,306
Mortgage loans - carried at amortized cost	33,696	2,319	-	760	49,448	-	-	52,527	19,198	366
Private loans - carried at amortized cost	3,166	67	-	-	-	-	-	67	-	3,099
Other loans - carried at amortized cost	2,441	-	-	-	-	-	2,197	2,197	1,326	1,570
Other financial assets - carried at fair value	3,425	-	-	-	-	-	-	-	-	3,425
Derivatives	7,916	1,606	407	-	-	5,841	-	7,855	47	109
Reinsurance assets	11,206	-	5,064	171	-	-	-	5,235	-	5,971
<b>At December 31</b>	<b>172,113</b>	<b>3,992</b>	<b>6,287</b>	<b>1,322</b>	<b>49,448</b>	<b>5,841</b>	<b>2,197</b>	<b>69,087</b>	<b>20,598</b>	<b>123,623</b>

	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agreements	Other collateral	Surplus collateral (or overcollateralization)		Net exposure
								Total collateral	Surplus	
<b>2015</b>										
Debt securities - carried at fair value	107,390	-	-	470	-	-	-	470	-	106,920
Money market and other short-term investments - carried at fair value	7,444	-	984	-	-	-	-	984	-	6,460

Mortgage loans - carried at amortized cost	32,899	2,070	-	1,387	45,244	-	1	48,702	15,644	(159)
Private loans - carried at amortized cost	2,847	-	-	-	-	-	-	-	-	2,847
Other loans - carried at amortized cost	2,517	-	-	-	-	-	2,193	2,193	1,377	1,701
Other financial assets - carried at fair value	3,932	-	-	-	-	-	-	-	-	3,932
Derivatives	10,643	1,510	696	-	-	7,972	-	10,178	58	523
Reinsurance assets	11,193	-	5,345	178	-	-	-	5,523	-	5,670
<b>At December 31</b>	<b>178,864</b>	<b>3,580</b>	<b>7,025</b>	<b>2,035</b>	<b>45,244</b>	<b>7,972</b>	<b>2,193</b>	<b>68,049</b>	<b>17,079</b>	<b>127,894</b>
<b>Debt securities</b>										

Several bonds in Aegon's USA's portfolio are guaranteed by monoline insurers. This is shown in the table above in the column Letters of credit / guarantees. Further information on the monoline insurers is provided below under Monoline insurers.

### Money market and short-term investments

The collateral reported for the money market and short-term investments are related to tri-party repurchase agreements (repos). Within tri-party repos Aegon invests under short-term reverse repurchase agreements and the counterparty posts collateral to a third party custodian. The collateral posted is typically high-quality, short-term securities and is only accessible for or available to Aegon in the event the counterparty defaults.

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**Table of Contents**Consolidated financial statements of Aegon N.V. [Notes to the consolidated financial statements](#) [Note 4179](#)**Mortgage loans**

The real estate collateral for mortgages includes both residential and commercial properties. The collateral for commercial mortgage loans in Aegon Americas is measured at fair value. At a minimum on an annual basis, a fair value is estimated for each individual real estate property that has been pledged as collateral. When a loan is originally provided, an external appraisal is obtained to estimate the value of the property. In subsequent years, the value is typically estimated internally using various professionally accepted valuation methodologies. Internal appraisals are performed by qualified, professionally accredited personnel. International valuation standards are used and the most significant assumptions made during the valuation of real estate are the current cost of reproducing or replacing the property, the value that the property's net earning power will support, and the value indicated by recent sales of comparable properties. Valuations are primarily supported by market evidence. For Aegon the Netherlands, collateral for the residential mortgages is measured as the foreclosure value which is indexed periodically.

Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

A substantial part of Aegon's Dutch residential mortgage loan portfolio benefits from guarantees by a Dutch government-backed trust (Stichting Waarborgfonds Eigen Woning) through the Dutch Mortgage loan Guarantee program (NHG). These guarantees cover all principal losses, missed interest payments and foreclosure costs incurred upon termination and settlement of defaulted mortgage loans when lender-specific terms and conditions of the guarantee are met. When not fully met, the trust may pay claims in part or in full, depending on the severity of the breach of terms and conditions. For each specific loan, the guarantee amortizes in line with an equivalent annuity mortgage loan. When the remaining loan balance at default does not exceed the amortized guarantee, it covers the full loss under its terms and conditions. Any loan balance in excess of this decreasing guarantee profile serves as a first loss position for the lender. For NHG-backed mortgage loans originated after January 1<sup>st</sup> 2014, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

**Derivatives**

The master netting agreements column in the table relates to derivative liability positions which are used in Aegon's credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

**Reinsurance assets**

The collateral related to the reinsurance assets include assets in trust that are held by the reinsurer for the benefit of Aegon. The assets in trust can be accessed to pay policyholder benefits in the event the reinsurers fail to perform under the terms of their contract. Further information on the related reinsurance transactions is included in note 28 Reinsurance assets.

**Other loans**

The collateral included in the other column represents the policyholders account value for policy loans. The excess of the account value over the loan value is included in the surplus collateral column. For further information on the policy loans refer to note 23.1 Financial assets, excluding derivatives.

The total collateral includes both under- and over-collateralized positions. To present a net exposure of credit risk, the over-collateralization, which is shown in the surplus collateral column, is extracted from the total collateral.

### Credit risk management

Aegon manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. Normally, Aegon mitigates credit risk in derivative contracts by entering into credit support agreement, where practical, and in ISDA master netting agreements for most of Aegon's legal entities to facilitate Aegon's right to offset credit risk exposure. Main counterparties to these transactions are investment banks which are typically rated A or higher. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of derivative trades, comprised mostly of interest rate swaps, equity swaps, currency swaps and credit swaps. Collateral received is mainly cash (USD and EUR). The credit support agreements that outline the acceptable collateral require high quality instruments to be posted. Over the last three years, there was no default with any derivatives counterparty. The credit risk associated with financial assets subject to a master netting agreement is eliminated only to the extent that financial



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liabilities due to the same counterparty will be settled after the assets are realized. Eligible derivative transactions are traded via Central Clearing Houses as required by EMIR and the Dodd-Frank act. Credit risk in these transactions is mitigated through posting of initial and variation margins.

Aegon may also mitigate credit risk in reinsurance contracts by including downgrade clauses that allow the recapture of business, retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, Aegon employs deterministic and stochastic credit risk modeling in order to assess the Group's credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

Aegon operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are placed on the exposure at both group level and individual country units. The limits also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon's internal rating of the counterparty. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit for the country unit and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon's Group Risk and Capital Committee (GRCC). The policy is reviewed regularly.

At December 31, 2016 there was one violation of the Credit Name Limit Policy at Group level. This violation will be solved over time by taking appropriate management actions. At December 31, 2015 there was one violation of the Credit Name Limit Policy at Group level. This violation has been resolved in 2016 by reducing the exposure.

At December 31, 2016 Aegon's largest corporate credit exposures are to American United Mutual Insurance, Reinsurance Group of America (RGA), Barclays and Citigroup. Aegon had large government exposures, the largest being in the USA, the Netherlands and Germany. Highly rated government bonds and government exposure domestically issued and owned in local currency are excluded from the Credit Name Limit Policy.

Aegon group level long-term counterparty exposure limits are as follows:

**Group limit**

Amounts in EUR million	2016	2015
AAA	900	900
AA	900	900
A	675	675
BBB	450	450
BB	250	250
B	125	125
CCC or lower	50	50

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The ratings distribution of general account portfolios of Aegon's major reporting units, excluding reinsurance assets, are presented in the table that follows, organized by rating category and split by assets that are valued at fair value and assets that are valued at amortized cost. Aegon uses a composite rating based on a combination of the external ratings of S&P, Moody's, Fitch and National Association of Insurance Commissioners (NAIC which is for US only) and internal ratings. The rating used is the lower of the external rating and the internal rating.

<b>Credit rating general account investments, excluding reinsurance assets 2016</b>	Americas		The Netherlands		United Kingdom		Central & Eastern Europe		Spain & Portugal	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
AAA	1,560	21,580	1,628	13,020	-	171	-	2	-	12
AA	3,214	6,102	86	6,011	-	1,158	-	1	-	58
A	3,281	25,147	12	3,397	-	549	8	116	48	157
BBB	481	21,461	850	2,402	-	85	20	433	(6)	436
BB	70	1,964	18	107	-	90	56	80	-	18
B	-	1,207	-	10	-	2	4	1	-	3
CCC or lower	-	1,049	-	-	-	-	-	-	-	-
Assets not rated	2,196	3,847	25,133	4,792	-	215	111	44	3	3
<b>Total</b>	<b>10,802</b>	<b>82,357</b>	<b>27,727</b>	<b>29,740</b>	<b>-</b>	<b>2,269</b>	<b>201</b>	<b>676</b>	<b>45</b>	<b>687</b>
Past due and / or impaired assets	17	1,397	390	77	-	-	102	2	-	-
<b>At December 31</b>	<b>10,820</b>	<b>83,755</b>	<b>28,117</b>	<b>29,817</b>	<b>-</b>	<b>2,269</b>	<b>303</b>	<b>678</b>	<b>45</b>	<b>687</b>

<b>Credit rating general account investments, excluding reinsurance assets 2016</b>	Asia		Asset Management		Total 2016 <sup>1)</sup>		Total carrying value
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	
AAA	-	950	-	-	3,189	35,758	38,946
AA	-	402	-	-	3,300	13,731	17,032
A	-	1,823	-	-	3,349	31,204	34,553
BBB	-	1,904	-	-	1,346	26,721	28,067

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BB	-	132	-	-	145	2,391	2,536
B	-	57	-	-	5	1,279	1,284
CCC or lower	-	28	-	-	-	1,078	1,078
Assets not rated	18	-	-	90	27,460	9,267	36,727
<b>Total</b>	<b>18</b>	<b>5,297</b>	<b>-</b>	<b>90</b>	<b>38,793</b>	<b>121,429</b>	<b>160,222</b>
Past due and / or impaired assets	-	13	-	-	510	1,489	1,999
<b>At December 31</b>	<b>18</b>	<b>5,310</b>	<b>-</b>	<b>90</b>	<b>39,303</b>	<b>122,918</b>	<b>162,221</b>

<sup>1</sup> Includes investments of Holding and other activities.

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	Americas		The Netherlands	United Kingdom		Central & Eastern Europe		Spain & Portugal		
<b>Credit rating</b>										
<b>general</b>										
<b>account</b>										
<b>investments,</b>										
<b>excluding</b>										
<b>reinsurance</b>	Amor- tized	Fair value	Amor- tized	Amor- Fair tized		Amor- tized	Fair value	Amor- tized	Fair value	
<b>assets 2015</b>	cost		cost	value	cost	cost		cost	value	
AAA	1,528	18,643	1,489	13,361	-	736	-	3	-	12
AA	3,239	5,249	96	4,420	-	6,172	-	10	-	54
A	2,813	24,525	202	2,054	-	3,654	31	73	59	163
BBB	212	21,179	459	3,309	-	2,588	54	109	1	382
BB	52	2,063	12	201	-	187	11	333	-	27
B	-	1,198	-	26	-	2	5	-	-	-
CCC or lower	-	969	-	-	-	-	4	8	-	-
Assets not rated	2,195	4,203	24,914	7,849	-	628	80	33	3	2
<b>Total</b>	<b>10,038</b>	<b>78,029</b>	<b>27,173</b>	<b>31,220</b>	<b>-</b>	<b>13,968</b>	<b>186</b>	<b>568</b>	<b>62</b>	<b>639</b>
Past due and / or impaired assets	23	1,479	520	119	-	1	154	2	-	-
<b>At December 31</b>	<b>10,062</b>	<b>79,508</b>	<b>27,692</b>	<b>31,339</b>	<b>-</b>	<b>13,969</b>	<b>340</b>	<b>570</b>	<b>62</b>	<b>639</b>

	Asia	Asset Management	Total 2015 <sup>1)</sup>		
<b>Credit rating</b>	Amor- tized	Fair value	Amor- tized	Fair value	Total carrying value
<b>general</b>	cost		cost		
<b>account</b>					
<b>investments,</b>					
<b>excluding</b>					
<b>reinsurance</b>					

**assets 2015**

AAA	-	782	-	-	3,017	33,556	36,572
AA	-	332	-	-	3,335	16,236	19,572
A	-	1,415	-	-	3,105	31,901	35,005
BBB	-	1,661	-	-	725	29,229	29,954
BB	-	76	-	-	75	2,887	2,962
B	-	56	-	-	5	1,281	1,287
CCC or lower	-	15	-	-	4	991	996
Assets not rated	19	-	-	74	27,299	13,133	40,431
<b>Total</b>	<b>19</b>	<b>4,337</b>	<b>-</b>	<b>74</b>	<b>37,566</b>	<b>129,214</b>	<b>166,779</b>
Past due and / or impaired assets	-	54	-	-	697	1,655	2,352
<b>At December 31</b>	<b>19</b>	<b>4,391</b>	<b>-</b>	<b>74</b>	<b>38,263</b>	<b>130,869</b>	<b>169,131</b>

<sup>1</sup> Includes investments of Holding and other activities.

The following table shows the credit quality of the gross positions in the statement of financial position for general account reinsurance assets specifically:

	<b>Carrying value 2016</b>	Carrying value 2015
AAA	7	7
AA	7,724	8,033
A	3,120	2,771
Below A	18	14
Not rated	338	368
<b>At December 31</b>	<b>11,206</b>	<b>11,193</b>

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The tables that follow present specific credit risk concentration information for general account financial assets.

**Credit risk concentrations  
debt****securities and money  
market****investments 2016**

	Americas	The Netherlands	United Kingdom	Central & Europe	Spain & Portugal	Asset Management Asia	Total 2016	Of which past due and / or impaired assets <sup>1)</sup>	
Residential mortgage-backed securities (RMBSs)	3,583	649	19	-	-	80	-	4,331	1,267
Commercial mortgage-backed securities (CMBSs)	5,340	44	195	-	-	576	-	6,155	8
Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds,									
Bank loans	1,066	2,437	-	-	-	29	-	3,532	7
ABSs - Other	2,324	276	97	-	1	373	-	3,072	36
Financial - Banking	8,457	1,194	157	67	110	800	-	10,785	4
Financial - Other	10,487	282	118	6	120	465	87	11,588	-
Industrial	29,364	2,824	332	7	126	2,367	-	35,020	65
Utility	4,704	392	67	3	43	280	-	5,490	7
Government bonds	12,406	15,642	1,068	553	282	339	-	30,289	4
<b>At December 31</b>	<b>77,730</b>	<b>23,741</b>	<b>2,054</b>	<b>636</b>	<b>683</b>	<b>5,310</b>	<b>87</b>	<b>110,262</b>	<b>1,399</b>

<sup>1)</sup> Includes investments of Holding and other activities.**Credit risk concentrations  
Government bonds per  
country of risk 2016**

	Americas	The Netherlands	United Kingdom	Central & Europe	Spain & Portugal	Asset Management Asia	Total 2016 <sup>1)</sup>
United States	11,738	22	-	-	-	300	12,060
Netherlands	-	5,374	-	-	4	-	5,378
United Kingdom	-	-	948	2	-	-	949
Austria	-	1,171	-	-	4	-	1,175
Belgium	-	1,119	25	-	7	-	1,151
Finland	-	935	-	-	-	-	935
France	-	1,356	36	-	5	-	1,397

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Germany	-	4,138	29	-	-	-	-	4,167
Hungary	4	-	-	360	-	-	-	364
Luxembourg	-	872	-	-	4	-	-	876
Spain	-	112	-	2	221	-	-	335
Rest of Europe	118	484	-	189	18	-	-	808
Rest of world	506	59	30	-	20	39	-	654
Supranational	40	-	-	-	-	-	-	40
<b>At December 31</b>	<b>12,406</b>	<b>15,642</b>	<b>1,068</b>	<b>553</b>	<b>282</b>	<b>339</b>	<b>-</b>	<b>30,289</b>

<sup>1</sup> Includes investments of Holding and other activities.

**Credit risk concentrations**

	Government bonds	Corporate bonds	RMBSs CMBSs	ABSs	Other	Total 2016 <sup>1)</sup>
<b>Credit rating 2016 <sup>2)</sup></b>						
AAA	22,620	912	9,809		2,362	35,704
AA	5,682	4,835	2,645		-	13,161
A	569	26,291	1,740		-	28,599
BBB	1,166	24,662	540		3	26,370
BB	158	1,943	274		-	2,376
B	91	1,023	145		-	1,260
CCC or lower	4	386	1,937		-	2,326
Assets not rated	-	4	-		462	466
<b>At December 31</b>	<b>30,289</b>	<b>60,055</b>	<b>17,090</b>	<b>2,827</b>	<b>110,262</b>	

<sup>1</sup> Includes investments of Holding and other activities.

<sup>2</sup> CNLP Ratings are used and are the lower of the Barclays Rating and the Internal Rating with the Barclays rating being a blended rating of S&P, Fitch, and Moody's.

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<b>Credit risk concentrations debt securities and money market investments 2015</b>	America	The Netherlands	Central & Eastern Europe			Spain & Portugal	Asset Management	Total 2015 <sup>1)</sup>	Of
			Kingdom	Spain	Portugal				past due and / or impaired assets
Residential mortgage-backed securities (RMBSs)	4,326	757	21	-	-	62	-	5,167	1,355
Commercial mortgage-backed securities (CMBSs)	4,970	78	590	-	-	516	-	6,153	16
Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans	959	2,055	-	-	-	28	-	3,041	7
ABSs - Other	2,231	342	2,018	-	2	280	-	4,873	60
Financial - Banking	7,617	1,578	1,321	53	101	715	-	11,385	4
Financial - Other	10,787	222	920	13	115	431	65	12,570	1
Industrial	27,349	2,778	2,315	9	106	1,880	-	34,437	31
Utility	4,450	546	977	3	43	204	-	6,223	-
Government bonds	9,794	15,015	5,178	450	271	275	-	30,984	46
<b>At December 31</b>	<b>72,484</b>	<b>23,370</b>	<b>13,341</b>	<b>528</b>	<b>638</b>	<b>4,391</b>	<b>65</b>	<b>114,834</b>	<b>1,521</b>

<sup>1</sup> Includes investments of Holding and other activities.

<b>Credit risk concentrations Government bonds per country of risk 2015</b>	America	The Netherlands	Central & Eastern Europe			Spain & Portugal	Asset Management	Total 2015 <sup>1)</sup>
			Kingdom	Spain	Portugal			
United States	9,057	23	-	-	-	251	-	9,331
Netherlands	-	5,068	4	-	4	-	-	5,075
United Kingdom	-	-	4,542	2	-	-	-	4,543
Austria	-	1,219	-	-	4	-	-	1,223
Belgium	-	1,043	135	-	8	-	-	1,186
Finland	-	894	-	-	-	-	-	894
France	-	1,331	125	-	5	-	-	1,460
Germany	-	3,966	57	-	-	-	-	4,023
Hungary	5	-	-	310	-	-	-	315
Luxembourg	-	777	133	1	4	-	-	915
Spain	-	109	-	1	222	-	-	332
Rest of Europe	127	518	-	136	19	-	-	801
Rest of world	560	68	182	-	6	25	-	841
Supranational	45	-	-	-	-	-	-	45
<b>At December 31</b>	<b>9,794</b>	<b>15,015</b>	<b>5,178</b>	<b>450</b>	<b>271</b>	<b>275</b>	<b>-</b>	<b>30,984</b>



<sup>1</sup> Includes investments of Holding and other activities.

Credit risk concentrations 2015 <sup>2)</sup>	Credit rating	RMBSs				Total 2015 <sup>1)</sup>
		Government bonds	Corporate bonds	CMBSs ABSs	Other	
AAA		20,611	1,084	9,852	2,000	33,547
AA		8,431	5,253	2,544	-	16,228
A		523	26,677	3,023	-	30,223
BBB		931	26,085	1,017	3	28,036
BB		402	2,044	346	-	2,792
B		29	956	295	-	1,280
CCC or lower		57	221	2,147	-	2,425
Assets not rated		-	3	9	290	302
<b>At December 31</b>		<b>30,984</b>	<b>62,323</b>	<b>19,234</b>	<b>2,292</b>	<b>114,834</b>

<sup>1</sup> Includes investments of Holding and other activities.

<sup>2</sup> CNLP Ratings are used and are the lower of the Barclays Rating and the Internal Rating with the Barclays rating being a blended rating of S&P, Fitch, and Moody's.

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<b>Credit risk concentrations mortgage loans</b>	Americas	Netherlands	Central & Eastern Europe			Spain & Portugal	Asia	Asset Management	<b>Total 2016</b> <sup>1)</sup>	Of which past due and / or impaired assets
			The United Kingdom	Europe	Spain & Portugal					
Agricultural	101	-	-	-	-	-	-	101	11	
Apartment	3,525	-	-	-	-	-	-	3,525	-	
Industrial	838	-	-	-	-	-	-	838	-	
Office	1,869	1	-	-	-	-	-	1,869	1	
Retail	1,889	12	-	-	-	-	-	1,901	5	
Other commercial	397	41	-	-	-	-	-	438	-	
Residential	23	24,793	-	207	1	-	-	25,023	448	
<b>At December 31</b>	<b>8,641</b>	<b>24,847</b>	<b>-</b>	<b>207</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>33,696</b>	<b>464</b>	

<sup>1</sup> Includes investments of Holding and other activities.

<b>Credit risk concentrations mortgage loans</b>	Americas	Netherlands	Central & Eastern Europe			Spain & Portugal	Asia	Asset Management	<b>Total 2015</b> <sup>1)</sup>	Of which past due and / or impaired assets
			The United Kingdom	Europe	Spain & Portugal					
Agricultural	101	-	-	-	-	-	-	101	10	
Apartment	2,796	-	-	-	-	-	-	2,796	-	
Industrial	837	-	-	-	-	-	-	837	-	
Office	1,880	12	-	-	-	-	-	1,892	6	
Retail	1,896	13	-	-	-	-	-	1,909	9	
Other commercial	351	35	-	-	-	-	-	386	2	
Residential	26	24,720	-	231	2	-	-	24,978	625	
<b>At December 31</b>	<b>7,888</b>	<b>24,779</b>	<b>-</b>	<b>231</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>32,899</b>	<b>653</b>	

<sup>1</sup> Includes investments of Holding and other activities.

The fair value of Aegon Americas commercial and agricultural mortgage loan portfolio as per December 31, 2016, amounted to EUR 8,789 million (2015: EUR 8,202 million). The loan to value (LTV) amounted to approximately 54% (2015: 55%). There were no delinquencies (defined as 60 days in arrears) in the portfolio (2015: 0.1%). In 2016, Aegon Americas recognized EUR 0 million impairments (net of recoveries) (2015: EUR 5 million) on this portfolio. In 2016, Aegon Americas foreclosed upon, or recovered EUR 15 million (2015: EUR 23 million) of real estate. The 2016 additional impairments associated with these loans at the time of foreclosure amounted to EUR 2 million (2015: impairment recoveries of EUR 3 million).

The fair value of Aegon the Netherlands mortgage loan portfolio as per December 31, 2016, amounted to EUR 29,479 million (2015: EUR 29,181 million). The LTV amounted to approximately 83% (2015: 90%). A significant part of the portfolio 57% (2015: 60%) is government guaranteed. Of the portfolio, 0.4% (2015: 0.8%) is in

delinquency (defined as 60 days in arrears). Impairments in 2016 amounted to a release of EUR 5 million (2015: EUR 9 million charge). During the last ten years defaults of the portfolio have been 5 basis points on average.

### Unconsolidated structured entities

Aegon's investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs and investment funds are presented in the line item "Investments" of the statement of financial position. Aegon's interests in these unconsolidated structured entities can be characterized as basic interests, Aegon does not have loans, derivatives, guarantees or other interests related to these investments. Any existing commitments such as future purchases of interests in investment funds are disclosed in note 48 Commitments and contingencies.

For debt instruments, specifically for RMBSs, CMBSs and ABSs, the maximum exposure to loss is equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon invests primarily in senior notes of RMBSs, CMBSs and ABSs. Additional information on credit ratings for Aegon's investments in RMBSs, CMBSs and ABSs are disclosed in the sections that describe per category of debt securities the composition and impairment assessments. The composition of the RMBSs, CMBSs and ABSs portfolios of Aegon are widely dispersed looking at the individual amount per entity, therefore Aegon only has non-controlling interests in individual unconsolidated structured entities. Furthermore these investments are not originated by Aegon.

Except for commitments as noted in note 48 Commitments and contingencies, Aegon did not provide, nor is required to provide financial or other support to unconsolidated structured entities. Nor does Aegon have intentions to provide financial or other support to unconsolidated structured entities in which Aegon has an interest or previously had an interest.

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For RMBSs, CMBSs and ABSs in which Aegon has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflects the carrying values recognized in the statement of financial position of Aegon's interests in RMBSs, CMBSs and ABSs.

	Total income 2016		December 31, 2016	
	Interest income	Total gains and losses on sale of assets	Total	Investments
<b>2016</b>				
Residential mortgage-backed securities	215	61	276	4,331
Commercial mortgage-backed securities	191	28	219	6,155
Asset-backed securities	64	12	75	3,532
ABSs - Other	85	7	92	3,072
<b>Total</b>	<b>555</b>	<b>107</b>	<b>662</b>	<b>17,090</b>
	Total income, 2015		December 31, 2015	
	Interest income	Total gains and losses on sale of assets	Total	Investments
<b>2015</b>				
Residential mortgage-backed securities	241	(42)	198	5,167
Commercial mortgage-backed securities	221	(12)	208	6,153
Asset-backed securities	63	7	70	3,041
ABSs - Other	102	326	428	4,873
<b>Total</b>	<b>626</b>	<b>278</b>	<b>905</b>	<b>19,234</b>

**Monoline insurers**

About EUR 413 million (2015: EUR 473 million) of the bonds in Aegon USA's and Asia's portfolios are insured by Monoline insurers. An insolvency by one of the Monolines could create significant market price volatility for the affected holdings.

Of the EUR 413 million indirect exposure on the Monoline insurers, 37% relates to Municipal Bond Insurance Association, Inc. (MBIA), 14% to Ambac Financial Group, inc. (AMBAC), and 39% to Assured Guaranty Corporation (AGC) (2015: 38% related to MBIA, 14% to AMBAC, and 38% to AGC).

**Additional information on credit risk, unrealized losses and impairments****Debt instruments**

The amortized cost and fair value of debt securities, money market investments and other, included in Aegon's available-for-sale (AFS) portfolios, are as follows as of December 31, 2016, and December 31, 2015:

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
<b>2016</b>						
<b>Debt securities, money market instruments and other</b>						
United States government	11,452	882	(343)	11,990	7,012	4,979
Dutch government	4,164	1,215	(5)	5,374	5,286	87
Other government	11,788	1,096	(20)	12,865	12,278	586
Mortgage-backed securities	10,099	453	(156)	10,396	6,543	3,853
Asset-backed securities	6,568	88	(64)	6,592	4,192	2,399
Corporate	50,431	4,073	(668)	53,837	42,361	11,476
Money market investments	6,776	-	-	6,776	6,758	18
Other	1,019	228	(41)	1,206	1,168	38
<b>Total</b>	<b>102,298</b>	<b>8,035</b>	<b>(1,297)</b>	<b>109,036</b>	<b>85,599</b>	<b>23,436</b>
Of which held by Aegon Americas, NL and UK	95,806	7,739	(1,217)	102,329	81,335	20,993

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	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
<b>2015</b>						
<b>Debt securities, money market instruments and other</b>						
United States government	8,351	866	(140)	9,077	6,266	2,811
Dutch government	4,245	822	-	5,068	5,049	19
Other government	14,308	2,297	(18)	16,587	15,497	1,090
Mortgage-backed securities	10,885	540	(202)	11,224	6,902	4,322
Asset-backed securities	7,537	445	(89)	7,893	4,508	3,385
Corporate	52,585	4,066	(1,348)	55,302	40,336	14,967
Money market investments	7,141	-	-	7,141	7,141	-
Other	1,120	232	(56)	1,297	1,234	63
<b>Total</b>	<b>106,173</b>	<b>9,268</b>	<b>(1,852)</b>	<b>113,589</b>	<b>86,932</b>	<b>26,657</b>
Of which held by Aegon Americas, NL and UK	100,715	9,029	(1,766)	107,979	83,616	24,363
<b>Unrealized bond losses by sector</b>						

The composition by industry category of Aegon available-for-sale (AFS) debt securities, money market investments and other in an unrealized loss position at December 31, 2016, and December 31, 2015, is presented in the following table:

<b>Unrealized losses - debt securities, money market investments and other</b>	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Carrying value of instruments with unrealized losses</b>	<b>Unrealized losses</b>	<b>Carrying value of instruments with unrealized losses</b>	<b>Unrealized losses</b>
Residential mortgage-backed securities (RMBSs)	1,588	(83)	1,823	(155)
Commercial mortgage-backed securities (CMBSs)	2,027	(67)	2,152	(39)
Asset-backed securities (ABSs) - CDOs backed by ABS,				
Corp. bonds, Bank loans	958	(11)	1,710	(38)
ABSs - Other	1,130	(43)	1,501	(47)

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Financial Industry - Banking	1,679	(135)	1,919	(169)
Financial Industry - Insurance	554	(34)	678	(43)
Financial Industry - Other	618	(28)	711	(31)
Industrial	6,216	(369)	9,036	(976)
Utility	836	(45)	1,019	(57)
Government	5,349	(361)	3,753	(154)
Other	38	(41)	63	(56)
<b>Total held by Aegon Americas, NL and UK</b>	<b>20,993</b>	<b>(1,217)</b>	<b>24,363</b>	<b>(1,766)</b>
Held by other segments	2,443	(80)	2,294	(86)
<b>Total</b>	<b>23,436</b>	<b>(1,297)</b>	<b>26,657</b>	<b>(1,852)</b>

As of December 31, 2016, there are EUR 7,739 million (December 31, 2015: EUR 9,029 million) of gross unrealized gains and EUR 1,217 million (December 31, 2015: EUR 1,766 million) of gross unrealized losses in the AFS debt securities, money markets and other portfolio of Aegon Americas, Aegon the Netherlands and Aegon UK. One issuer represents more than 4% of the total unrealized loss position. The unrealized loss is EUR 343 million and relates to securities issued by the government of the United States of America.

Financial and credit market conditions were mixed during 2016. Developed-world growth remains positive, but generally below the targets of the Central Banks, causing policy makers to maintain very accommodative credit market conditions. Concerns about a US recession and a Chinese slowdown at the start of 2016 subsided later in the year. 2016 was shaped by a number of global political events such as the decision of UK voters to leave the European Union, followed by the US presidential election later in the year. Developed market economies performed relatively positive despite this tumultuous backdrop. Unemployment declined sharply in Europe, the US and Japan. Emerging Market economies were negatively impacted by weak commodities prices early in the year, but stabilized with commodities prices in the second half of the year. US equity markets had strong returns, particularly in the fourth quarter, while global developed markets were mixed, with British prices standing out on the downside after the Brexit vote followed by

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a strong recovery to the end of the year. The US dollar was dramatically stronger versus other developed market currencies, again particularly in the fourth quarter. The US Federal Reserve increased the Fed Funds rate by 25 basis points in December. US Treasury rates with a longer duration, after having fallen sharply early in the year, rose even more sharply late in the year to finish higher. Corporate default rates, with the exception of energy- and commodity-related credits, remained relatively low due largely to readily available access to funding and healthy corporate balance sheet fundamentals. Credit spreads were very volatile over the course of the year, but finished sharply tighter. Oil prices rose from multi-year lows reached in the beginning of the year. The increase in US Treasury rates was partly offset by tighter spreads, muting changes in the market values of fixed income holdings. European equity markets had a more difficult year. The start of the year was especially volatile due to banking sector concerns and the Brexit vote. Later in the year, investor sentiment turned more positive resulting in a sharp rally. The ECB continued to extend its purchase program. Yields on core countries remained very low. Spreads on peripheral countries increased despite the large Quantitative Easing purchases of the ECB. Emerging market bonds had a very good year despite the sell-off after the US presidential election. The divergence between different emerging markets was large. Brazil recovered a bit from its crisis, resulting in a sharp appreciation of the real. Meanwhile problems in Turkey intensified due to the failed coup and the reaction of the government.

**[Impairment of financial assets](#)**

Aegon regularly monitors industry sectors and individual debt securities for indicators of impairment. These indicators may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations by the issuer, 5) high probability of bankruptcy of the issuer, or 6) downgrades by internationally recognized credit rating agency. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows.

In the sections below a description is provided on the composition of the categories of debt securities and money market investments. Individual issuers rated below investment grade in any sector which have unrealized loss positions greater than EUR 25 million are disclosed separately. Furthermore, quality ratings of investment portfolios are based on a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon's internal rating of the counterparty.

**[Residential mortgage-backed securities](#)**

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 4,162 million (December 31, 2015: EUR 5,011 million) of residential mortgage-backed securities available-for-sale (RMBS), of which EUR 3,494 million (December 31, 2015: EUR 4,233 million) is held by Aegon Americas, EUR 649 million (December 31, 2015: EUR 757 million) by Aegon the Netherlands, and EUR 19 million (December 31, 2015: EUR 21 million) by Aegon UK. Residential mortgage-backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit characteristics and are pooled together and sold in tranches. The following table shows the breakdown of Aegon USA's RMBS available-for-sale (AFS) portfolio.



	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
<b>AFS RMBS by quality</b>							
GSE guaranteed	771	500	-	-	-	1,272	1,271
Prime jumbo	-	1	1	11	170	182	194
Alt-A	-	39	27	11	403	479	572
Negative amortization floaters	-	-	-	1	679	679	712
Other housing	-	50	71	43	519	683	745
<b>At December 31, 2016</b>	<b>771</b>	<b>589</b>	<b>98</b>	<b>65</b>	<b>1,771</b>	<b>3,295</b>	<b>3,494</b>
Of which insured	-	-	43	8	203	254	237
						Total amortized cost	Total fair value
<b>AFS RMBS by quality</b>	AAA	AA	A	BBB	<BBB		
GSE guaranteed	1,471	-	-	-	-	1,471	1,493
Prime jumbo	-	1	1	13	199	213	224
Alt-A	-	-	30	3	476	509	596
Negative amortization floaters	-	-	-	1	781	782	807
Reverse mortgage RMBS	-	-	-	190	46	237	171
Other housing	1	43	120	93	618	876	943
<b>At December 31, 2015</b>	<b>1,472</b>	<b>44</b>	<b>151</b>	<b>301</b>	<b>2,121</b>	<b>4,090</b>	<b>4,232</b>
Of which insured	-	-	66	10	268	343	333

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A significant part of Aegon USA's RMBS holdings are rated < BBB, as the issuances took place before the United States housing downturn that started in 2007.

Additionally, Aegon USA has investments in RMBS of EUR 89 million (December 31, 2015: EUR 93 million), which are classified as fair value through profit or loss.

RMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and stress-case scenarios. Aegon's RMBS asset specialists utilize widely recognized industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. Key assumptions used in the models are projected defaults, loss severities, and prepayments. Each of these key assumptions varies greatly based on the significantly diverse characteristics of the current collateral pool for each security. Loan-to-value, loan size, and borrower credit history are some of the key characteristics used to determine the level of assumption that is utilized. Defaults were estimated by identifying the loans that are in various delinquency buckets and defaulting a certain percentage of them over the near-term and long-term. Assumed defaults on delinquent loans are dependent on the specific security's collateral attributes and historical performance.

Loss severity assumptions were determined by obtaining historical rates from broader market data and by adjusting those rates for vintage, specific pool performance, collateral type, mortgage insurance and estimated loan modifications. Prepayments were estimated by examining historical averages of prepayment activity on the underlying collateral. Quantitative ranges of significant assumptions within Aegon's modeling process for Prime JumboAlt-A, Negative Amortization and subprime RMBS are as follows: prepayment assumptions range from approximately 0% to 15% with a weighted average of approximately 4.6% (December 31, 2015: 5.2%), assumed defaults on delinquent loans range from 50% to 95% with a weighted average of approximately 79.4% (December 31, 2015: 85.8%), assumed defaults on current loans are dependent on the specific security's collateral attributes and historical performance, while loss severity assumptions range from approximately 24% to 75%, with a weighted average of approximately 57.6% (December 31, 2015: 55.7%).

Once the entire pool is modeled, the results are closely analyzed by Aegon's asset specialists to determine whether or not Aegon's particular tranche or holding is at risk for not collecting all contractual cash flows taking into account the seniority and other terms of the tranches held.

Aegon the Netherlands uses its own proprietary cash flow tools to analyse and stress test RMBS transactions. The key input parameters are default rates and loss given default assumptions, which are established based historical pool characteristics and current loan level data. Cash flows for each bond are modelled in 225 scenarios of varying severity, ranging from our base case to extreme stress to even unrealistic scenarios to establish breaking points of the tranche. The model takes all deal characteristics, such as waterfall or reserve funds, into account and gives us detailed insight in the risk of principal loss or deferral of contractual cash flows.

The total gross unrealized loss on available-for-sale RMBS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 83 million (December 31, 2015: 155 million), of which EUR 78 million (December 31, 2015: EUR 147 million) relates to positions of Aegon USA, and the total net unrealized gain on available-for-sale RMBS was EUR 210 million (December 31, 2015: EUR 159 million), including a EUR 199 million (December 31, 2015: EUR 145 million) net unrealized gain relating to positions of Aegon USA. The housing market in the United States has continued to improve as evidenced by rising home prices and sales volume. The pace of improvement has slowed

considerably from the rapid pace seen post-financial crisis, and is expected continue to moderate in the coming years. However, the positive trends in the housing market have led to improvements in borrower delinquencies and prepayment rates as well as liquidation timelines. Loss severities on liquidated properties remain elevated. The improving housing market and underlying loan credit performance has led to credit spread tightening across the asset class for the past few years, a trend that continued in 2016.

The housing market continued to improve in Europe in 2016. Housing prices rose and affordability remained high. Although economic growth is not very robust it is sufficient to support the positive trend in the labour market, which is clearly beneficial for consumer risk in general and retail mortgages in particular. A recent development in Europe is that mostly legacy collateral gets securitised, while funding for new origination is obtained outside the structured credit market. As a result the underlying collateral in most of our holdings is deleveraging and loan-to-values decline. The improving fundamentals, the deleveraging of the collateral and the shortening of the Dutch ABS holdings supported the credit spreads related to these investments.

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There are no individual issuers rated below investment grade in this RMBS sector which have unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA available-for-sale (AFS) RMBS instruments were determined as follows:

	Level II	Level III	Total 2016	Level II	Level III	Total 2015
RMBS	3,419	75	3,494	3,977	256	4,233
<b>Commercial mortgage-backed securities</b>						

As of December 31, 2016, Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 5,579 million (December 31, 2015: EUR 5,636 million) of AFS commercial mortgage-backed securities (CMBS), of which EUR 5,340 million (December 31, 2015: EUR 4,969 million) is held by Aegon USA, EUR 195 million (December 31, 2015: EUR 590 million) by Aegon UK and EUR 44 million (December 31, 2015: EUR 78 million) by Aegon the Netherlands. CMBS are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The company's CMBS include conduit, large loan, single borrower, commercial real estate collateralized debt obligations (CRE CDOs), collateralized debt obligations (CDOs), government agency, and franchise loan receivable trusts.

The total gross unrealized loss on available-for-sale CMBS of Aegon Americas amounted to EUR 67 million as of December 31, 2016 (December 31, 2015: EUR 39 million). The total net unrealized gain on the available-for-sale CMBS as of December 31, 2016, is EUR 87 million (December 31, 2015: EUR 181 million), of which EUR 34 million (December 31, 2015: EUR 61 million) relates to positions of Aegon USA, followed by Aegon UK at EUR 50 million and Aegon the Netherlands at EUR 1 million. CMBS fundamentals continued to slowly improve in 2016 as the pace of credit deterioration moderated and financing availability remained high. The percentage of delinquencies increased during the year; however, this was a result of a declining outstanding balance of CMBS. Commercial real estate valuation increases have slowed as we have reached peak levels. Liquidity remains reasonable for the CMBS market; however, credit spreads on many legacy subordinate CMBS tranches remain at wide levels.

The tables below summarize the credit quality of Aegon USA available-for-sale (AFS) CMBS portfolio. Additionally, Aegon USA has no investments in CMBS (December 31, 2015: EUR 1 million), which are classified as fair value through profit or loss.

	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
<b>CMBS by quality</b>							
CMBS	4,295	688	141	73	105	5,301	5,337
CMBS and CRE CDOs	-	-	-	-	5	5	3
<b>At December 31, 2016</b>	<b>4,295</b>	<b>688</b>	<b>141</b>	<b>73</b>	<b>110</b>	<b>5,306</b>	<b>5,340</b>

<b>CMBS by quality</b>	AAA	AA	A	BBB	<BBB
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						Total amortized cost	Total fair value
CMBS	3,879	705	87	119	117	4,908	4,969
<b>At December 31, 2015</b>	<b>3,879</b>	<b>705</b>	<b>87</b>	<b>119</b>	<b>117</b>	<b>4,908</b>	<b>4,969</b>

CMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and several stress-case scenarios by Aegon's internal CMBS asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach. For non-conduit securities, a CMBS asset specialist works closely with Aegon's real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur.

As the remaining unrealized losses in the CMBS portfolio relate to holdings where Aegon expects to receive full principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2016.

There are no individual issuers rated below investment grade in the CMBS sector which have unrealized loss position greater than EUR 25 million.

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The fair values of Aegon USA available-for-sale (AFS) CMBS instruments were determined as follows:

	Level II	Level III	Total 2016	Level II	Level III	Total 2015
CMBS	5,337	3	5,340	4,909	60	4,969
Asset-backed securities						

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 6,188 million (December 31, 2015: EUR 7,592 million) of AFS ABS instruments of which EUR 3,377 million (December 31, 2015: EUR 3,178 million) is held by Aegon USA, EUR 2,714 million (December 31, 2015: EUR 2,396 million) by Aegon the Netherlands and EUR 97 million (December 31, 2015: EUR 2,018 million) by Aegon UK. Additionally, Aegon Americas has investments in ABS of EUR 13 million (December 31, 2015: EUR 12 million), which are classified as fair value through profit or loss. ABS are securitizations of underlying pools of credit card receivables, auto financing loans, small business loans, bank loans, and other receivables. The underlying assets of the asset backed securities have been pooled together and sold in tranches with varying credit ratings.

The total gross unrealized loss on available-for-sale ABS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 54 million as of December 31, 2016 (December 31, 2015: EUR 85 million). Aegon USA has EUR 44 million (December 31, 2015: EUR 55 million) of this gross unrealized loss and Aegon the Netherlands EUR 10 million (December 31, 2015: EUR 29 million). In the United States, increasing investor demand has been met with new issuance in the asset-backed sector. The combination of these factors has led to varied performance by sector with most sectors exhibiting tighter credit spreads over the course of the year. The European ABS market experienced a volatile year. Macroeconomic concerns about a slowdown in global economic growth affected the market throughout the first half of the year. Performance recovered more than their initial losses after the ramifications of Brexit turned out to be less severe in the short term. As fundamental performance continues to improve, most asset classes within European ABS market are trading at their tightest levels since the financial crisis and record issuance levels are met with strong demand.

The breakdown by quality of the available-for-sale (AFS) ABS portfolio of Aegon USA, Aegon the Netherlands and Aegon UK is as follows:

	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
<b>ABS US, NL and UK</b>							
Credit cards	482	28	35	30	-	575	589
Autos	277	9	46	42	-	375	374
Small business loans	-	1	7	6	104	118	116
CDOs backed by ABS, Corp. bonds, Bank loans	2,108	790	368	134	94	3,493	3,504
Other ABS	627	165	697	85	22	1,596	1,606
<b>At December 31, 2016</b>	<b>3,495</b>	<b>992</b>	<b>1,153</b>	<b>296</b>	<b>220</b>	<b>6,156</b>	<b>6,188</b>

	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
<b>ABS US, NL and UK</b>							
Credit cards	392	63	36	-	-	491	505
Autos	243	18	13	20	-	295	295
Small business loans	-	3	12	-	151	166	154
CDOs backed by ABS, Corp. bonds, Bank loans	1,747	744	304	128	107	3,031	3,004
Other ABS	736	424	1,700	333	53	3,246	3,626
<b>At December 31, 2015</b>	<b>3,117</b>	<b>1,252</b>	<b>2,066</b>	<b>482</b>	<b>312</b>	<b>7,228</b>	<b>7,583</b>

There were no individual issuers rated below investment grade in this ABS sector which has unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA, Aegon the Netherlands and Aegon UK available-for-sale (AFS) ABS instruments were determined as follows:

	Level II	Level III	Total 2016	Level II	Level III	Total 2015
ABSs	4,880	1,309	6,188	4,434	3,158	7,592

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The Corporate - Financial sector is further subdivided into banking, brokerage, insurance, REITs and Financial - Other sub-sectors. A majority of the gross unrealized loss in Aegon's available-for-sale portfolio is from the banking sub-sector.

**Corporate Financial sector Banking sub-sector**

The Banking sub-sector in Aegon's portfolio is relatively large, diverse, and of high quality. Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 8,527 million (December 31, 2015: EUR 9,157 million) of AFS bonds issued by banks. In aggregate, the gross unrealized loss on these bonds amounted to EUR 135 million (December 31, 2015: EUR 169 million) and the net unrealized gain on these bonds amounted to EUR 188 million (December 31, 2015: EUR 327 million).

Bank regulators continue to implement a wide array of reforms designed to strengthen capital levels, reduce balance sheet risk and improve liquidity in an ongoing effort to reduce systemic risk and harmonize global bank regulation. Both regulators and central governments are adopting new bank guidelines designed to improve resolvability in an attempt to ensure that banks can fail in an orderly manner without the use of taxpayer money. While most banks already meet new capital and liquidity requirements, well ahead of regulatory deadlines, they are now in the process of issuing loss absorbing securities and altering their legal, financial and operating structures. Bank balance sheet repair and risk reduction is expected to continue. Globally, risk concentrations on bank balance sheets continue to exist but confidence in the sector has increased materially since the financial crisis.

Within the Banking sub-sector, Aegon holds EUR 750 million (December 31, 2015: EUR 1,053 million) of deeply subordinated securities with deferrable coupons that have an associated unrealized loss of EUR 93 million (December 31, 2015 EUR 119 million).

There is one individual issuer rated below investment grade in the Banking sub-sector which has unrealized losses greater than EUR 25 million.

	Category	Fair value	Unrealized loss	Rating	Aging of unrealized loss
Belfius Bank SA	Banking	85	45	BB	> 24 months

Aegon's available-for-sale debt securities for Belfius Bank SA have a fair value of EUR 85 million as of December 31, 2016 (December 31, 2015: EUR 90 million). These below investment grade securities had gross unrealized losses of EUR 45 million as of December 31, 2016 (December 31, 2015: EUR 36 million). Belfius provides banking products and services in Belgium. Belfius has been 100% owned by the Belgium Government since it was split out of Dexia in October, 2011 and changed its name to Belfius in June 2012. It has a top tier domestic market position. It offers retail banking such as mortgage loans, commercial banking such as commercial and credit lending, treasury/liquidity management, leasing, working capital finance to debtors, public sector lending/bond portfolio, P&C insurance, and life insurance. Belfius is based in Brussels and is a subsidiary for the Federal Holding and Investment Company the investment vehicle and subsidiary of The Belgium State. The material de-risking by the bank since 2011, combined



with a relatively stable bank-insurance business model, has improved earnings. Aegon evaluated the near-term prospects of the issuer and it believes that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2016.

#### [Corporate - Industrial sector](#)

The Corporate - Industrial sector is further subdivided into various sub-sectors. A majority of Aegon's available-for-sale portfolio gross unrealized loss is in the Consumer Non-Cyclical sub-sector.

#### [Corporate - Industrial sector](#) [Consumer Non-Cyclical sub-sector](#)

The Consumer Non-Cyclical sub-sector encompasses various industries ranging from consumer products to supermarkets. The more significant of these sub-sectors from an unrealized loss perspective are food and beverage and pharmaceuticals. Some large food and beverage balance sheets have weakened due to acquisitions, a product of the continued low volume and low growth environment of the traditional packaged food and beverage business, but they are now firmly in the deleveraging cycle and should improve in 2017 and 2018. The 2016 US presidential campaign put pharmaceutical companies under pressure given the additional scrutiny over drug pricing and elevated concerns regarding potential pricing reform. With the Republican win these concerns have lessened; however are still present. Share repurchases, dividend payments and merger and acquisitions continue to be a prevalent use of capital in the sector, at times resulting in additional leverage. Some pharmaceutical companies face product concentration and or patent risk which has raised concerns that future growth may not be as robust as what was experienced in the past. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2016.

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There are no individual issuers rated below investment grade in this sub-sector which have unrealized loss positions greater than EUR 25 million.

**Corporate - Energy industry sector**

The Corporate - Energy Industry sector encompasses various sub-sectors including integrated oil and gas producers, independent oil and gas producers, midstream processing and transport, oil field services and drilling, and refining. The majority of the gross unrealized loss relates to oilfield services and drilling, as well as refining companies. Lower oil and natural gas prices have reduced cash flow for upstream oil and gas producers. Oil field service and drilling companies have been pressured by reduced capital spending by their upstream client base and margin compression from price concessions and new capacity additions. While refiners have seen positive impacts from lower feedstock costs, margins have softened due to high refined product inventory levels. Commodity price pressure has been the result of strong non-OPEC supply growth, high global inventories and concerns on softening global demand. Reduced recession concerns, supply outages and recent agreements by OPEC members to cut production levels have led to a rise in oil prices heading into year-end 2016. Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2016.

There are no individual issuers rated below investment grade in this sub-sector which have unrealized loss positions greater than EUR 25 million.

**Government bonds**

Aegon Americas, Aegon the Netherlands and Aegon UK's government issued available-for-sale debt securities include emerging market government bonds, US Treasury bonds, agency and state bonds. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2016.

There are no individual issuers rated below investment grade in the government sector which have unrealized loss positions greater than EUR 25 million.

**Unrealized loss by maturity**

The table below shows the composition by maturity of all available-for-sale debt securities in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK.

<b>Debt securities</b>	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Carrying value of securities with gross</b>	<b>Gross unrealized losses</b>	<b>Carrying value of securities with gross unrealized losses</b>	<b>Gross unrealized losses</b>

	<b>unrealized losses</b>			
One year or less				
	742	(13)	1,172	(22)
Over 1 through 5 years				
	2,444	(73)	5,011	(225)
Over 5 through 10 years				
	6,097	(197)	7,496	(386)
Over 10 years	11,656	(892)	10,621	(1,077)
<b>Total</b>	<b>20,938</b>	<b>(1,176)</b>	<b>24,300</b>	<b>(1,710)</b>

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The table below shows the composition by credit quality of debt securities, available-for-sale, in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK.

<b>Debt securities</b>	<b>December 31, 2016</b>		December 31, 2015	
	<b>Carrying value of securities with unrealized losses</b>	<b>Unrealized losses</b>	Carrying value of securities with unrealized losses	Unrealized losses
AAA				
	8,536	(422)	6,740	(188)
AA				
	1,581	(48)	2,381	(54)
A				
	3,599	(154)	4,127	(204)
BBB				
	5,249	(288)	8,021	(752)
BB				
	920	(128)	1,420	(287)
B				
	345	(40)	812	(91)
Below B	706	(96)	799	(134)
<b>Total</b>	<b>20,938</b>	<b>(1,176)</b>	<b>24,300</b>	<b>(1,710)</b>

The table below provides the length of time an available-for-sale security has been below cost and the respective unrealized loss.

<b>Debt securities</b>	<b>At December 31, 2016</b>			
	<b>Investment grade carrying value of</b>	<b>Below investment grade carrying value of securities with</b>	<b>Investment grade unrealized loss</b>	<b>Below investment grade unrealized loss</b>

	securities with unrealized losses	unrealized losses		
0 6 months				
6 12 months	14,848	587	(635)	(30)
> 12 months	190	198	(6)	(20)
<b>Total</b>	<b>3,929</b> <b>18,966</b>	<b>1,186</b> <b>1,971</b>	<b>(270)</b> <b>(912)</b>	<b>(213)</b> <b>(263)</b>

	Investment grade carrying value of securities with unrealized losses	At December 31, 2015 Below investment grade carrying value of securities with unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
<b>Debt securities</b>				
0 6 months				
6 12 months	12,890	1,458	(516)	(121)
> 12 months	4,334	357	(267)	(80)
<b>Total</b>	<b>4,045</b> <b>21,269</b>	<b>1,216</b> <b>3,031</b>	<b>(416)</b> <b>(1,198)</b>	<b>(311)</b> <b>(512)</b>

The unrealized loss improved during 2016 due to tightening credit spreads, offset slightly by rising interest rates.

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The table below provides the length of time a below investment grade security has been in an unrealized loss and the percentage of carrying value (CV) to amortized cost in Aegon Americas, Aegon the Netherlands and Aegon UK.

<b>Aging and severity unrealized losses debt securities</b>	<b>2016</b>		<b>2015</b>	
	<b>Carrying value</b>	<b>Unrealized losses</b>	<b>Carrying value</b>	<b>Unrealized losses</b>
CV 70-100% of amortized cost	585	(27)	1,422	(97)
CV 40-70% of amortized cost	2	(2)	33	(16)
CV < 40% of amortized cost	1	(2)	4	(8)
<b>0-6 months</b>	<b>587</b>	<b>(30)</b>	<b>1,458</b>	<b>(121)</b>
CV 70-100% of amortized cost	196	(18)	308	(45)
CV 40-70% of amortized cost	3	(2)	48	(33)
CV < 40% of amortized cost			1	(2)
<b>6-12 months</b>	<b>198</b>	<b>(20)</b>	<b>357</b>	<b>(80)</b>
CV 70-100% of amortized cost	475	(55)	337	(46)
CV 40-70% of amortized cost	3	(2)	73	(58)
CV < 40% of amortized cost		(3)	5	(22)
<b>12-24 months</b>	<b>478</b>	<b>(60)</b>	<b>415</b>	<b>(125)</b>
CV 70-100% of amortized cost	582	(71)	761	(143)

CV 40-70% of amortized cost				
	119	(67)	26	(13)
CV < 40% of amortized cost	7	(15)	15	(29)
> 24 months	708	(153)	802	(185)
<b>Total</b>	<b>1,971</b>	<b>(263)</b>	<b>3,031</b>	<b>(512)</b>

There is one individual issuer, Belfius Bank SA, rated below investment grade that has an unrealized loss greater than EUR 25 million. This issuer has been separately disclosed above in the Corporate Financial sector.

#### Realized gains and losses on debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK

The following table provides the realized gains and losses on the debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK for the twelve months ended December 31, 2016, and December 31, 2015. Gross realized gains in 2016 increased compared to 2015 due to the sale of the UK annuity portfolio.

Gross realized gains and (losses)	Gross realized gains	Gross realized losses
<b>December 31, 2016</b>		
Debt securities	2,257	(323)
<b>December 31, 2015</b>		
Debt securities	553	(207)

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired.

	Gross realized losses		Total
	0 - 12 months	> 12 months	
<b>December 31, 2016</b>			
Debt securities	(221)	(103)	(323)
<b>December 31, 2015</b>			
Debt securities	(154)	(53)	(207)

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The composition of Aegon Americas, Aegon the Netherlands and Aegon UK's bond impairment losses and recoveries by issuer for the periods ended December 31, 2016, and December 31, 2015, is presented in the table below. Those issuers with impairments or recoveries above EUR 25 million are specifically noted.

	<b>2016</b> <b>(Impairment) /</b> <b>recovery</b>	2015 (Impairment) / recovery
<b>Impairments:</b>		
Other (none individually greater than EUR 25 million)	(52)	(32)
<b>Subtotal</b>	<b>(52)</b>	<b>(32)</b>
<b>Recoveries:</b>		
Total recoveries	42	110
<b>Sub-total</b>	<b>42</b>	<b>110</b>
<b>Net (impairments) and recoveries</b>	<b>(11)</b>	<b>77</b>
<b>Net (impairments) and recoveries</b>		

Net impairments for the twelve months ended December 31, 2016, totalled EUR 11 million (twelve months ended December 31, 2015: EUR 77 million net recoveries).

For the twelve months ended December 31, 2016, Aegon recognized EUR 42 million (twelve months ended December 31, 2015: EUR 110 million) in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

**Past due and impaired assets**

The tables that follow provide information on past due and individually impaired financial assets for the whole Aegon Group. An asset is past due when a counterparty has failed to make a payment when contractually due. Assets are impaired when an impairment loss has been charged to the income statement relating to this asset. After the impairment loss is reversed in subsequent periods, the asset is no longer considered to be impaired. When the terms and conditions of financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

Aegon's policy is to pursue realization of the collateral in an orderly manner as and when liquidity permits. Aegon generally does not use the non-cash collateral for its own operations.



<b>Past due but not impaired assets</b>	2016				2015			
	0-6 months	6-12 months	> 1 year	Total	0-6 months	6-12 months	> 1 year	Total
Debt securities - carried at fair value								
	58	9	7	73	51	3	53	108
Mortgage loans								
	80	4	3	87	58	4	6	68
Other loans								
	29	4	2	36	29	-	-	29
Accrued interest	-	-	1	1	-	-	6	7
<b>At December 31</b>	<b>167</b>	<b>17</b>	<b>13</b>	<b>197</b>	<b>138</b>	<b>8</b>	<b>65</b>	<b>211</b>

<b>Impaired financial assets</b>	Carrying amount 2016	Carrying amount 2015
Shares		
	81	128
Debt securities - carried at fair value		
	1,326	1,413
Mortgage loans		
	377	584
Private Loans		
	6	9
Other loans		
	3	7
Other financial assets - carried at fair value	9	5
<b>At December 31</b>	<b>1,803</b>	<b>2,147</b>

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Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined within Aegon as an unrealized loss position for more than six months or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, internal equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

These factors typically require significant management judgment. The impairment review process has resulted in EUR 1 million of impairment charges for the twelve months ended December 31, 2016 (twelve months ended December 31, 2015: EUR 4 million) for Aegon Americas, Aegon the Netherlands and Aegon UK.

As of December 31, 2016, there are EUR 207 million of gross unrealized gains and EUR 13 million of gross unrealized losses in the equity portfolio of Aegon (December 31, 2015: EUR 216 million of gross unrealized gains and EUR 13 million of gross unrealized losses). There are no securities held by Aegon with an unrealized loss above EUR 5 million. The table below represents the unrealized gains and losses on share positions held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	Cost basis	Carrying value	Net unrealized gains / (losses)	Carrying value of securities with gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized gains	Gross unrealized losses
<b>December 31, 2016</b>							
Shares	596	786	190	722	202	64	(13)
<b>December 31, 2015</b>							
Shares	593	794	201	747	214	47	(13)

The composition of shares by industry sector in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK at December 31, 2016, and December 31, 2015 is presented in the following table.

	2016	2015
<b>Unrealized losses on shares</b>	<b>Carrying value of instruments with unrealized losses</b>	<b>Unrealized losses</b>
	<b>Unrealized losses</b>	<b>Carrying value of instruments with unrealized losses</b>

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Financials	54	(12)	losses 47	(13)
Other	10	-	-	-
<b>Total</b>	<b>64</b>	<b>(13)</b>	<b>47</b>	<b>(13)</b>

Impairment losses on shares

The table below provides the length of time the shares held by Aegon Americas, Aegon the Netherlands and Aegon UK were below cost prior to their impairment in 2016 and 2015.

In million EUR  
**2016**

0- 6 months

Shares  
**2015**

(1)

Shares

-

**Table of Contents**198 Consolidated financial statements of Aegon N.V. **Notes to the consolidated financial statements** **Note 4****Equity market risk and other investments risk**

Fluctuations in the equity, real estate and capital markets have affected Aegon's profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where Aegon bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for policyholders where funds are invested in equities, backing variable annuities, unit-linked products and mutual funds. Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee earned by Aegon on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees.

The general account equity, real estate and other non-fixed-income portfolio of Aegon is as follows:

<b>Equity, real estate and non-fixed income exposure</b>	America	Netherlands	Kingdom	Central & Europe	Spain & Portugal	Asia	Management	Holding and other activities	<b>Total 2016</b>
Equity funds									
Common shares <sup>1)</sup>	154	494	27	37	-	-	-	-	711
Preferred shares	410	-	58	5	4	-	-	41	518
Investments in real estate	229	-	-	-	-	-	-	-	229
Hedge funds	743	1,238	-	3	15	-	-	-	1,999
Other alternative investments	1,165	1	-	-	-	-	2	-	1,168
Other financial assets	1,207	156	-	-	-	-	-	21	1,385
<b>At December 31</b>	<b>4,496</b>	<b>1,930</b>	<b>182</b>	<b>45</b>	<b>19</b>	<b>-</b>	<b>4</b>	<b>62</b>	<b>6,739</b>

<sup>1</sup> Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR mill million.

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<b>Equity, real estate and non-fixed income exposure</b>	America	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Holding and other activities	Total 2015
Equity funds									
Common shares <sup>1)</sup>	152	470	31	24	1	-	-	-	679
Preferred shares	303	-	475	14	-	-	-	114	907
Investments in real estate	228	-	-	2	-	-	-	-	230
Hedge funds	840	1,148	-	2	-	-	-	-	1,990
Other alternative investments	1,581	1	-	-	-	-	2	-	1,585
Other financial assets	1,385	-	-	-	-	-	-	10	1,395
	585	-	4	1	-	-	7	-	596
<b>At December 31</b>	<b>5,074</b>	<b>1,619</b>	<b>509</b>	<b>44</b>	<b>2</b>	<b>-</b>	<b>9</b>	<b>124</b>	<b>7,382</b>

<sup>1</sup> Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR nil million.

<b>Market risk concentrations shares</b>	America	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Of which Total 2016 <sup>1)</sup>	impaired assets
Communication									
Consumer	43	-	-	-	-	-	-	43	-
Financials	41	-	-	-	-	-	-	41	-
Funds	675	4	1	-	2	-	-	682	2
Industries	-	326	84	33	2	-	-	506	79
Other	21	-	-	-	-	-	-	22	-
	12	4	-	2	-	-	2	20	-
<b>At December 31</b>	<b>793</b>	<b>334</b>	<b>84</b>	<b>35</b>	<b>4</b>	<b>-</b>	<b>2</b>	<b>1,315</b>	<b>81</b>

<sup>1</sup> Includes investments of Holding and other activities.

<b>Market risk concentrations shares</b>	America	Netherlands	Kingdom	Central & Europe	Spain & Portugal	Asia	Asset Management	Total 2015 <sup>1)</sup>	Of which impaired assets
Communication									
Consumer	43	-	-	-	-	-	-	48	-
Financials	25	-	-	-	-	-	-	43	-
Funds	557	4	190	-	-	-	-	775	6
Industries	-	129	316	36	1	-	-	547	121
Other	12	-	-	-	-	-	-	16	-
	14	4	-	2	-	-	2	31	2
<b>At December 31</b>	<b>652</b>	<b>136</b>	<b>506</b>	<b>38</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>1,460</b>	<b>128</b>

<sup>1</sup> Includes investments of Holding and other activities.

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The table that follows sets forth the closing levels of certain major indices at the end of the last five years.

	<b>2016</b>	2015	2014	2013	2012
S&P 500					
Nasdaq	2,239	2,044	2,059	1,848	1,426
FTSE 100	5,383	5,007	4,736	4,177	3,020
AEX	7,143	6,242	6,566	6,749	5,898
	483	442	424	402	343

The sensitivity analysis of net income and shareholders' equity to changes in equity prices is presented in the table below.

The sensitivity of shareholders' equity and net income to changes in equity markets reflects changes in the market value of Aegon's portfolio, changes in DPAC amortization, contributions to pension plans for Aegon's employees and the strengthening of the guaranteed minimum benefits, when applicable. The results of equity sensitivity tests are non-linear. The main reason for this is due to equity options sold to clients that are embedded in some of these products and that more severe scenarios could cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not. Aegon generally has positive income benefits from equity market increases and negative impacts from equity market declines as it earns fees on policyholder account balances and provides minimum guarantees for account values. Aegon uses options and other equity derivatives to provide protection against the negative impact of equity market declines.

**Sensitivity analysis of net income and shareholders' equity to changes in equity markets**

**Immediate change of 2016**

Equity increase 10%

Equity decrease 10%

Equity increase 20%

	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Equity increase 10%	158	291
Equity decrease 10%	(227)	(360)
Equity increase 20%	324	587

Equity decrease 20% 2015	(338)	(604)
Equity increase 10%		
Equity decrease 10%	132	237
Equity increase 20%	25	(99)
Equity decrease 20%	279	504
	104	(132)
<b>Liquidity risk</b>		

Liquidity risk is inherent in much of Aegon's business. Each asset purchased and liability incurred has its own liquidity characteristics. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. If Aegon requires significant amounts of cash on short notice in excess of normal cash requirements and existing credit facilities, it may have difficulty selling these investments at attractive prices or in a timely manner.

Aegon operates a Liquidity Risk Policy under which country units are obliged to maintain sufficient levels of highly liquid assets to meet cash demands by policyholders and account holders over the next two years. Potential cash demands are assessed under a stress scenario including spikes in disintermediation risk due to rising interest rates and concerns over Aegon's financial strength due to multiple downgrades of the Group's credit rating. At the same time, the liquidity of assets other than cash and government issues is assumed to be severely impaired for an extended period of time. All legal entities and Aegon Group must maintain enough liquidity in order to meet all cash needs under this extreme scenario.

Aegon held EUR 35,841 million of general account investments in cash, money market products and government bonds that are readily saleable or redeemable on demand (2015: EUR 36,521 million). The Group expects to meet its obligations, even in a stressed liquidity event, from operating cash flows and the proceeds of maturing assets as well as these highly liquid assets. Further, the Group has access to back-up credit facilities, as disclosed in note 39 Borrowings, amounting to EUR 3,885 million which were unused at the end of the reporting period (2015: EUR 3,568 million).

The maturity analysis below shows the remaining contractual maturities of each category of financial liabilities (including coupon interest). When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that can be required to be paid on demand without any delay are reported in the category On demand. If there is a notice period, it has been assumed that notice is given immediately and the repayment has been



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presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

To manage the liquidity risk arising from financial liabilities, Aegon holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. For this reason, Aegon believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

**Maturity analysis gross  
undiscounted  
contractual cash flows  
(for non-derivatives)  
2016**

	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Trust pass-through securities						
Subordinated loans	-	10	39	131	81	261
Borrowings	-	28	112	84	1,198	1,422
Investment contracts <sup>1)</sup>	-	2,072	5,146	1,535	6,693	15,446
Investment contracts for account of policyholders <sup>1)</sup>	12,695	1,110	2,040	1,093	1,985	18,923
Other financial liabilities	35,239	2,885	-	-	466	38,591
<b>2015</b>	<b>6,743</b>	<b>2,224</b>	<b>839</b>	<b>12</b>	<b>26</b>	<b>9,844</b>
Trust pass-through securities						
Subordinated loans	-	9	38	47	169	263
Borrowings	-	28	112	112	1,183	1,435

## Borrowings

	-	2,665	7,117	430	3,833	14,045
Investment contracts <sup>1)</sup>						
	10,285	2,140	2,056	1,062	1,683	17,225
Investment contracts for account of policyholders <sup>1)</sup>						
	32,786	3,261	-	-	282	36,329
Other financial liabilities	7,291	2,757	871	12	29	10,962

<sup>1</sup> Excluding investment contracts with discretionary participating features.

Aegon's liquidity management is based on expected claims and benefit payments rather than on the contractual maturities.

The projected cash benefit payments in the table below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions based on Aegon's historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

### Financial liabilities relating to insurance

#### and investment contracts <sup>1)</sup> 2016

	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Insurance contracts	-	4,522	18,361	18,712	135,679	177,275
Insurance contracts for account of policyholders	-	7,719	32,577	33,490	114,545	188,331
Investment contracts	-	5,278	7,574	2,814	9,635	25,303
Investment contracts for account of policyholders	292	10,328	25,850	22,867	63,798	123,136
Insurance contracts	-	5,130	21,353	22,153	131,584	180,220
	-	7,205	30,668	31,314	97,230	166,417

Insurance contracts for account of  
policyholders

Investment contracts	-	3,213	6,570	4,381	5,776	19,941
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Investment contracts for account of  
policyholders

	255	11,489	28,422	26,050	64,509	130,725
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<sup>1</sup> The liability amount in the consolidated financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 36 Insurance contracts and 37 Investments contracts.

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The following table details the Group's liquidity analysis for its derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

**Maturity analysis relating to derivatives<sup>1)</sup>**

		< 1 yr	1 < 5 yrs	5 < 10 yrs	> 10 yrs	Total
<b>(Contractual cash flows) 2016</b>	On demand	amount	amount	amount	amount	amount
<b>Gross settled</b>						
Cash inflows	-	18,933	6,154	10,862	19,084	55,034
Cash outflows	-	(19,794)	(6,435)	(9,807)	(18,227)	(54,263)
<b>Net settled</b>						
Cash inflows	-	222	1,014	1,635	3,984	6,855
Cash outflows	-	(123)	(417)	(789)	(7,278)	(8,607)

1 Derivatives includes all financial derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only, cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

**Maturity analysis relating to derivatives<sup>1)</sup>**

		< 1 yr	1 < 5 yrs	5 < 10 yrs	> 10 yrs	Total
<b>(Contractual cash flows) 2015</b>	On demand	amount	amount	amount	amount	amount
<b>Gross settled</b>						
Cash inflows	-	15,428	10,166	16,984	32,890	75,468
Cash outflows	-	(15,812)	(11,179)	(16,871)	(29,622)	(73,485)
<b>Net settled</b>						

Cash inflows	-	175	993	1,742	4,493	7,403
Cash outflows	-	(89)	(447)	(823)	(4,935)	(6,294)

1 Derivatives includes all financial derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

## 5 Segment information

As disclosed in note 2.4 Segment reporting Aegon adopted refinements to its segment reporting. The following is reported from 2016 onwards:

Americas: one operating segment which covers business units in the United States, Brazil and Mexico, including any of the units' activities located outside these countries;  
the Netherlands;

United Kingdom (including Variable Annuities Europe);

Central & Eastern Europe;

Spain & Portugal;

Asia: one operating segment which covers businesses operating in Hong Kong, Singapore, China, Japan, India and Indonesia including any of the units' activities located outside these countries;

Asset Management: one operating segment which covers business activities from Aegon Asset Management;

Holding and other activities: one operating segment which includes financing, reinsurance activities, employee and other administrative expenses of holding companies.

The change in segment reporting does not have an impact on the consolidated statement of financial position, the consolidated income statement and results of operations or the consolidated cash flow statement of Aegon N.V.

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.

Aegon's segment information is prepared by consolidating on a proportionate basis Aegon's joint ventures and associated companies.

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**Performance Measure**

A performance measure of reporting segments utilized by the Company is underlying earnings before tax. Underlying earnings before tax reflects Aegon's profit from underlying business operations and excludes components that relate to accounting mismatches that are dependent on market volatility, updates to best estimate actuarial and economic assumptions and model updates or events that are considered outside the normal course of business. As of 2016 results from assumption updates are no longer reported as part of underlying earnings but as part of Other income / (charges) refer to the paragraph Change in measurement of Performance measure below.

Aegon believes that its performance measure underlying earnings before tax provides meaningful information about the underlying results of Aegon's business, including insight into the financial measures that Aegon's senior management uses in managing the business. Among other things, Aegon's senior management is compensated based in part on Aegon's results against targets using underlying earnings before tax. While many other insurers in Aegon's peer group present substantially similar performance measures, the performance measures presented in this document may nevertheless differ from the performance measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards.

The reconciliation from underlying earnings before tax to income before tax, being the most comparable IFRS measure, is presented in the tables in this note.

The items that are excluded from underlying earnings before tax as described further below are: fair value items, realized gains or losses on investments, impairment charges/reversals, other income or charges, run-off businesses and share in earnings of joint ventures and associates.

**Change in measurement of Performance measure**

Aegon changed the measurement of underlying earnings before tax to exclude the impact of actuarial assumption updates. In addition, the impact from updates to actuarial assumptions, as well as model updates and updates to economic assumptions previously recorded in fair value items, are recorded in Other income / (charges).

The impact of assumption updates are reflected as part of Other income / (charges) rather than as part of underlying earnings before tax or fair value items. Following this change all management best estimate assumptions, both actuarial and economic, will continue to be reflected in underlying earnings. However, updates to these assumptions, often representing the present value of multiple performance years, either retrospectively or prospectively, will not. Actuarial assumption updates result from experience studies or market observable data (e.g. third party expert judgments), which are usually performed on an annual basis. These experience studies and judgments may or may not result in resetting management's expectations in regard to actuarial assumptions (e.g. mortality rates, lapse rates, expenses, management actions etc.), deviating from initial or historic assumptions applied in determining the Company's financial results. The impact of such updates could be either positive or negative on the Company's financial results. Since 2015, management already reported the impact of model updates in other income / (charges). By presenting the impacts from assumption and model updates in one place, management believes it increases the transparency of Aegon's results.

For segment reporting purposes, the impact of this change in measurement for assumption updates on full year 2015 would have been an increase in Aegon Group consolidated underlying earnings before tax of EUR 77 million and

a decrease in fair value items of EUR 151 million, resulting in an increase in other income / (charges) of EUR 74 million (2014: EUR 141 million increase in consolidated underlying earnings before tax, EUR 4 million increase in fair value items, EUR 5 million increase in run-off earnings, resulting in a decrease in other income / (charges) of EUR 151 million). There is no impact on net income in any of the reporting periods. Comparative numbers have been restated, enabling a like for like comparison. The presentation of the items in the IFRS income statement will remain unchanged and continue to be part of the line Policyholder claims and benefits . Refer to paragraph 2.4.3 for impact on 2015 and 2014.

#### Impact from assumption and model updates

In 2016 a charge of EUR 118 million (2015: EUR 131 million charge) has been recorded in other income / (charges) in respect of model and assumption updates. The impact is mainly attributable to Aegon's business in the Americas and the Netherlands. Assumption changes and model updates in the Americas from long-term care led to a net negative impact of EUR 100 million. These were the result of experience updates including morbidity, termination rates and utilization assumptions. For the other business lines in the Americas, assumption changes and model updates largely offset each other. The main items were the refinement of modelling of crediting rates on indexed universal life policies and management actions, which together offset lower lapse assumptions on certain secondary guarantee universal life insurance blocks. A review of expenses led to an update of the expense assumption in V