AEGON

# Annual Report

2016

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# Introduction

## 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 133-302 and the stand-alone financial statements of Aegon N.V. pages 304-318, both prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ('IFRS-EU'), 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' and 'Canadian dollar' when referring to the lawful currency of Canada, and 'PLN' when referring to the lawful currency of Poland.

# 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.

## 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.

# 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)[1]

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.

### 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.

1 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.

### 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.[1]

### 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.[2]

### 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.

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.

### 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.

# Aegon's strategy

## Aegon's ambition

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

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

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

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

## 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.

# 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.

# 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 adopted by the European Union (IFRS-EU).

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 140-302) of this Annual Report.

| **Selected consolidated income statement information**<br>In EUR million (except per share amount) | **2016** | 2015 [1] | 2014 [1] | 2013 [1] | 2012 [1] |
|---|---|---|---|---|---|
| **Amounts based upon IFRS** | | | | | |
| 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 [2] | 33,655 | 33,902 | 30,157 | 29,805 | 29,327 |
| Income/ (loss) before tax | 805 | (634) | 1,475 | 1,060 | 2,076 |
| Net income/ (loss) | 586 | (523) | 1,195 | 871 | 1,667 |
| **Earnings per common share** | | | | | |
| Basic | 0.22 | (0.31) | 0.49 | 0.30 | 0.74 |
| Diluted | 0.22 | (0.31) | 0.49 | 0.30 | 0.74 |
| **Earnings per common share B** | | | | | |
| Basic | 0.01 | (0.01) | 0.01 | 0.01 | - |
| Diluted | 0.01 | (0.01) | 0.01 | 0.01 | - |

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

| **Selected consolidated balance sheet information**<br>In million EUR (except per share amount) | **2016** | 2015 [1] | 2014 [1] | 2013 [1] | 2012 [1] |
|---|---|---|---|---|---|
| **Amounts based upon IFRS** | | | | | |
| Total assets | 425,935 | 415,729 | 424,547 | 351,430 | 362,702 |
| 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 | 20,913 | 22,684 | 24,183 | 17,496 | 20,952 |

[1] 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.

| **Number of common shares**<br>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) | - | - | - | - |
| **Balance at end of period** | **2,074,549** | **2,147,037** | **2,145,948** | **2,131,459** | **1,972,030** |

| **Number of common shares B**<br>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 | - |
| **Balance at end of period** | **585,022** | **585,022** | **581,326** | **579,005** | **-** |

## 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.

| | EUR per common share [1] | | | USD per common share [1] | | |
|---|---|---|---|---|---|---|
| **Year** | 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 [2] | 0.26 | 0.15 | | |

[1] Paid at each shareholders' option in cash or in stock.
[2] Proposed.

From May 2003 to May 2013, Aegon had common shares and class A and class B preferred shares. The annual dividend on Aegon's class A and class B preferred shares was calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank's fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on Euronext Amsterdam's first working day of the financial year to which the dividend relates. Apart from this, no other dividend was paid on the preferred shares. This resulted in a rate of 2.75% for the year 2012. Applying this rate to the weighted average paid-in capital of its preferred shares during 2012, the total amount of annual dividends Aegon made in 2013 on its preferred shares for the year 2012 was EUR 59 million. In addition, Aegon paid a 2013 interim dividend on the preferred shares of EUR 24 million, covering the period from January 1, 2013 until the cancellation of all preferred shares in May 2013.

## 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:

| **Closing rates** | 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:

| **Year ended December 31,** | Average rate [1)] |
|---|---|
| 2012 | 1.2909 |
| 2013 | 1.3303 |
| 2014 | 1.3210 |
| 2015 | 1.1032 |
| 2016 | 1.1029 |

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

# 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.

## 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.

# Results of operations

This Annual Report includes the non-IFRS-EU financial measure: underlying earnings before tax. The reconciliation of this measure to the most comparable IFRS-EU measure is presented in the table below in addition to note 5 Segment information of the consolidated financial statements. This non-IFRS-EU 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-EU 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-EU measure is presented in the table below. Aegon believes that these non-IFRS-EU 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 the non-IFRS-EU measures presented in this report. While many other insurers in Aegon's peer group present substantially similar non-IFRS-EU measures, the non-IFRS-EU measures presented in this document may nevertheless differ from the non-IFRS-EU measures presented by other insurers. There is no standardized meaning to these measures under IFRS-EU 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-EU measures present within this report, when read together with Aegon's reported IFRS-EU 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-EU 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 geographically**<br>Amounts in EUR millions | **2016** | 2015 | % |
|---|---|---|---|
| **Net underlying earnings** | **1,483** | **1,481** | **-** |
| Tax on underlying earnings | 429 | 386 | 11% |
| **Underlying earnings before tax geographically** | | | |
| Americas | 1,249 | 1,278 | (2%) |
| The Netherlands | 534 | 537 | (1%) |
| United Kingdom | 59 | (27) | - |
| Central & Eastern Europe | 55 | 37 | 51% |
| Spain & Portugal | 8 | 12 | (38%) |
| *Europe* | *655* | *559* | *17%* |
| Asia | 21 | 20 | 3% |
| Asset Management | 149 | 170 | (12%) |
| Holding and other activities | (162) | (161) | - |
| **Underlying earnings before tax** | **1,913** | **1,867** | **2%** |
| Fair value items | (645) | (771) | 16% |
| Gains / (losses) on investments | 340 | 346 | (2%) |
| Net impairments | (54) | 49 | - |
| Other income / (charges) | (771) | (2,180) | 65% |
| Run-off businesses | 54 | 88 | (39%) |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **836** | **(601)** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 31 | 33 | (6%) |
| Income tax | (250) | 78 | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (31) | (33) | 6% |
| **Net income** | **586** | **(523)** | **-** |
| Commissions and expenses | 6,696 | 6,916 | (3%) |
| of which operating expenses | 3,764 | 3,734 | 1% |

| **New life sales** Amounts in EUR millions | **2016** | 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% |
| *Europe* | *299* | *332* | *(10%)* |
| Asia | 128 | 173 | (26%) |
| **Total recurring plus 1/10 single** | **969** | **1,104** | **(12%)** |

| **Gross deposits (on and off balance)** Amounts in EUR millions | **2016** | 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% |
| *Europe* | *12,773* | *11,489* | *11%* |
| Asia | 304 | 408 | (25%) |
| Asset Management | 46,366 | 33,722 | 37% |
| **Total gross deposits** | **100,325** | **82,618** | **21%** |

| **Worldwide revenues geographically 2016** Amounts in EUR millions | 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 | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total life insurance gross premiums | 7,363 | 2,015 | 9,888 | 399 | 191 | *12,493* | 1,121 | - | (78) | 20,898 | (498) | 20,400 |
| Accident and health insurance premiums | 2,204 | 210 | 36 | 1 | 73 | *320* | 104 | - | (4) | 2,624 | (15) | 2,609 |
| General insurance premiums | - | 266 | - | 179 | 92 | *536* | - | - | - | 536 | (92) | 444 |
| **Total gross premiums** | **9,567** | **2,491** | **9,924** | **578** | **355** | ***13,348*** | **1,225** | **-** | **(82)** | **24,058** | **(606)** | **23,453** |
| Investment income | 3,717 | 2,135 | 1,661 | 45 | 45 | *3,886* | 232 | 3 | 3 | 7,841 | (54) | 7,788 |
| Fees and commission income | 1,651 | 350 | 95 | 36 | 14 | *495* | 61 | 632 | (242) | 2,596 | (188) | 2,408 |
| Other revenue | 4 | - | - | - | 2 | *2* | - | 1 | 3 | 11 | (4) | 7 |
| **Total revenues** | **14,940** | **4,976** | **11,680** | **659** | **416** | ***17,732*** | **1,517** | **636** | **(318)** | **34,507** | **(852)** | **33,655** |
| Number of employees, including agent employees | 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 | **2016** | 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) | - |
| **Underlying earnings before tax** | **1,913** | **1,867** | **2%** |

# Results 2016 worldwide

Aegon's net income in 2016 improved to EUR 586 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 645 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 586 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 645 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. 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.

### 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 250 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 30%, 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 by 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 1.8 billion to EUR 20.9 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 17.4 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 calculation 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.

# Results 2015 worldwide

| **Underlying earnings geographically**<br>Amounts in EUR millions | 2015 | 2014 | % |
|---|---|---|---|
| **Net underlying earnings** | **1,481** | **1,507** | **(2%)** |
| Tax on underlying earnings | 386 | 499 | (23%) |
| **Underlying earnings before tax geographically** | | | |
| 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%) |
| *Europe* | *559* | *771* | *(27%)* |
| Asia | 20 | (17) | - |
| Asset Management | 170 | 115 | 48% |
| Holding and other activities | (161) | (138) | (17%) |
| **Underlying earnings before tax** | **1,867** | **2,006** | **(7%)** |
| Fair value items | (771) | (804) | 4% |
| Gains / (losses) on investments | 346 | 697 | (50%) |
| Net impairments | 49 | (34) | - |
| Other income / (charges) | (2,180) | (391) | - |
| Run-off businesses | 88 | 11 | - |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **(601)** | **1,485** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 33 | 10 | - |
| Income tax | 78 | (290) | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (33) | (10) | - |
| **Net income** | **(523)** | **1,195** | **-** |
| Commissions and expenses | 6,916 | 5,865 | 18% |
| of which operating expenses | 3,734 | 3,312 | 13% |

| **New life sales**<br>Amounts in EUR millions | 2015 | 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%) |
| *Europe* | *332* | *472* | *(30%)* |
| Asia | 173 | 114 | 52% |
| **Total recurring plus 1/10 single** | **1,104** | **1,138** | **(3%)** |

| **Gross deposits (on and off balance)**<br>Amounts in EUR millions | 2015 | 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%) |
| *Europe* | *11,489* | *8,289* | *39%* |
| Asia | 408 | 526 | (22%) |
| Asset Management | 33,722 | 19,340 | 74% |
| **Total gross deposits** | **82,618** | **60,004** | **38%** |

| **Worldwide revenues geographically 2015** Amounts in EUR millions | 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 | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total life insurance gross premiums | 7,046 | 2,240 | 8,465 | 477 | 174 | *11,356* | 1,713 | - | (102) | 20,013 | (431) | 19,583 |
| Accident and health insurance premiums | 2,266 | 234 | 47 | 1 | 64 | *345* | 105 | - | - | 2,717 | (14) | 2,703 |
| General insurance premiums | - | 473 | - | 164 | 80 | *717* | - | - | 2 | 720 | (80) | 640 |
| **Total gross premiums** | **9,312** | **2,947** | **8,512** | **642** | **317** | ***12,419*** | **1,819** | **-** | **(100)** | **23,450** | **(524)** | **22,925** |
| Investment income | 3,680 | 2,277 | 2,331 | 45 | 41 | *4,693* | 194 | 7 | 2 | 8,576 | (51) | 8,525 |
| Fees and commission income | 1,704 | 351 | 98 | 39 | 13 | *501* | 62 | 650 | (284) | 2,633 | (195) | 2,438 |
| Other revenue | 9 | - | - | - | 2 | *2* | - | - | 7 | 19 | (5) | 14 |
| **Total revenues** | **14,705** | **5,575** | **10,941** | **726** | **373** | ***17,615*** | **2,076** | **657** | **(375)** | **34,677** | **(775)** | **33,902** |
| Number of employees, including agent employees | 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%) |
| **Underlying earnings before tax** | **1,867** | **2,006** | **(7%)** |

# Results 2015 worldwide

Aegon's net loss in 2015 amounted to EUR 523 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 771 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 523 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 771 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. 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).

## 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 78 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 1.5 billion to EUR 22.7 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 17.8 billion on December 31, 2015, or 8.38 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.

# Results 2016 Americas

| | Amounts in USD millions | | | Amounts in EUR millions | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % | **2016** | 2015 | % |
| **Net underlying earnings** | **1,059** | **1,100** | **(4%)** | **956** | **991** | **(4%)** |
| Tax on underlying earnings | 323 | 318 | 2% | 292 | 286 | 2% |
| **Underlying earnings before tax by business** | | | | | | |
| 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%) |
| **Underlying earnings before tax** | **1,382** | **1,418** | **(3%)** | **1,249** | **1,278** | **(2%)** |
| 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%) |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **706** | **(268)** | **-** | **638** | **(241)** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 3 | 5 | (32%) | 3 | 5 | (32%) |
| Income tax | (88) | 7 | - | (80) | 6 | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (3) | (5) | 32% | (3) | (5) | 32% |
| **Net income** | **618** | **(261)** | **-** | **558** | **(235)** | **-** |
| 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%) |
| **Total gross premiums** | **10,590** | **10,336** | **2%** | **9,567** | **9,312** | **3%** |
| 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%) |
| **Total revenues** | **16,537** | **16,322** | **1%** | **14,940** | **14,705** | **2%** |
| 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 | - |

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

| | 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 | | |
|---|---|---|---|---|---|---|
| **Gross deposits (on and off balance)** | **2016** | 2015 | % | **2016** | 2015 | % |
| 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%) |
| **Total gross deposits** | **45,251** | **41,069** | **10%** | **40,881** | **36,999** | **10%** |

| **Exchange rates** | Weighted average rate | | Closing rate as of | |
|---|---|---|---|---|
| Per 1 EUR | **2016** | 2015 | **December 31, 2016** | December 31, 2015 |
| USD | 1.1069 | 1.1100 | 1.0548 | 1.0863 |

# Results 2016 Americas

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.

## 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.

# Results 2015 Americas

| | Amounts in USD millions | | | Amounts in EUR millions | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % | 2015 | 2014 | % |
| **Net underlying earnings** | **1,100** | **1,204** | **(9%)** | **991** | **906** | **9%** |
| Tax on underlying earnings | 318 | 491 | (35%) | 286 | 369 | (22%) |
| **Underlying earnings before tax by business** | | | | | | |
| 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%) |
| **Underlying earnings before tax** | **1,418** | **1,694** | **(16%)** | **1,278** | **1,275** | **-** |
| 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 | - |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **(268)** | **925** | **-** | **(241)** | **696** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 5 | 4 | 39% | 5 | 3 | 66% |
| Income tax | 7 | (129) | - | 6 | (97) | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (5) | (4) | (39%) | (5) | (3) | (66%) |
| **Net income** | **(261)** | **796** | **-** | **(235)** | **599** | **-** |
| Life insurance gross premiums | 7,821 | 8,585 | (9%) | 7,046 | 6,461 | 9% |
| Accident and health insurance premiums | 2,515 | 2,490 | 1% | 2,266 | 1,874 | 21% |
| **Total gross premiums** | **10,336** | **11,074** | **(7%)** | **9,312** | **8,334** | **12%** |
| Investment income | 4,085 | 4,401 | (7%) | 3,680 | 3,312 | 11% |
| Fees and commission income | 1,891 | 1,974 | (4%) | 1,704 | 1,485 | 15% |
| Other revenues | 11 | 3 | - | 9 | 2 | - |
| **Total revenues** | **16,322** | **17,453** | **(6%)** | **14,705** | **13,134** | **12%** |
| Commissions and expenses | 4,489 | 4,410 | 2% | 4,044 | 3,319 | 22% |
| of which operating expenses | 1,843 | 1,871 | (2%) | 1,660 | 1,408 | 18% |

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

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

| | Amounts in USD millions | | | Amounts in EUR millions | | |
|---|---|---|---|---|---|---|
| **Gross deposits (on and off balance)** | 2015 | 2014 | % | 2015 | 2014 | % |
| Life | 7 | 9 | (20%) | 6 | 7 | (4%) |
| Retirement plans | 27,833 | 26,736 | 4% | 25,075 | 20,121 | 25% |
| Mutual funds | 5,084 | 4,879 | 4% | 4,580 | 3,672 | 25% |
| Variable annuities | 7,857 | 10,235 | (23%) | 7,079 | 7,702 | (8%) |
| Fixed annuities | 276 | 323 | (15%) | 249 | 243 | 2% |
| Canada | - | 121 | - | - | 91 | - |
| Latin America | 12 | 18 | (35%) | 10 | 14 | (22%) |
| **Total gross deposits** | **41,069** | **42,321** | **(3%)** | **36,999** | **31,849** | **16%** |

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

# Results 2015 Americas

The net loss in 2015 was USD 261 million, primarily the result of the book loss on the divestment of Canada of USD 837 million. Underlying earnings before tax decreased 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 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.

## 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.

# 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[1] 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

1 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.

offers through 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/worksite, 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 non-registered products sold through independent insurance agents. This channel offers life insurance (term life, universal life, variable universal life[1], 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

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

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.

### Index universal life insurance

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 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[1].

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® 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 a 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.

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

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, 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 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 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.

# Introduction Europe

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**<br>Amounts in EUR millions | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | Europe |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Net underlying earnings** | 414 | 89 | 47 | (1) | 548 |
| Tax on underlying earnings | 119 | (30) | 9 | 9 | 107 |
| **Underlying earnings before tax by product segment** | 534 | 59 | 55 | 8 | 655 |
| Fair value items | (33) | (7) | - | (1) | (41) |
| Gains / (losses) on investments | 189 | 153 | - | (1) | 342 |
| Net impairments | (12) | - | 1 | - | (10) |
| Other income / (charges) | 44 | (678) | (23) | - | (658) |
| **Income / (loss) before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **721** | **(474)** | **34** | **6** | **288** |
| Income tax | (155) | 18 | (15) | (8) | (161) |
| **Net income / (loss)** | **566** | **(456)** | **19** | **(2)** | **127** |
| **2016** | | | | | |
| **Revenues** | | | | | |
| 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 |
| **Total gross premiums** | **2,491** | **9,924** | **578** | **355** | **13,348** |
| Investment income | 2,135 | 1,661 | 45 | 45 | 3,886 |
| Fees and commission income | 350 | 95 | 36 | 14 | 495 |
| Other revenues | - | - | - | 2 | 2 |
| **Total revenues** | **4,976** | **11,680** | **659** | **416** | **17,732** |
| Commissions and expenses | 975 | 667 | 244 | 172 | 2,058 |
| of which operating expenses | 821 | 394 | 143 | 88 | 1,445 |

| **Income statement - Underlying earnings**<br>Amounts in EUR millions | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | Europe |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Net underlying earnings** | 419 | 31 | 26 | 6 | **482** |
| Tax on underlying earnings | 118 | (58) | 10 | 7 | 77 |
| **Underlying earnings before tax by product segment** | 537 | (27) | 37 | 12 | **559** |
| Fair value items | 7 | (25) | - | - | (18) |
| Gains / (losses) on investments | 306 | 103 | 2 | - | 411 |
| Net impairments | (20) | - | (2) | - | (22) |
| Other income / (charges) | 27 | (1,247) | (2) | 17 | (1,205) |
| **Income / (loss) before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **857** | **(1,196)** | **35** | **29** | **(275)** |
| Income tax | (196) | 268 | (11) | (7) | 54 |
| **Net income / (loss)** | **661** | **(928)** | **24** | **22** | **(221)** |
| **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 |
| **Total revenues** | **5,575** | **10,941** | **726** | **373** | **17,615** |
| Commissions and expenses | 1,053 | 907 | 264 | 144 | 2,368 |
| of which operating expenses | 831 | 398 | 143 | 70 | 1,442 |

| **Income statement - Underlying earnings**<br>Amounts in EUR millions | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | Europe |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Net underlying earnings** | 423 | 144 | 48 | 23 | **638** |
| Tax on underlying earnings | 135 | (19) | 12 | 5 | 133 |
| **Underlying earnings before tax by product segment** | 558 | 125 | 60 | 28 | **771** |
| Fair value items | (207) | (31) | 8 | - | (231) |
| Gains / (losses) on investments | 431 | 164 | 9 | 2 | 606 |
| Net impairments | (12) | - | (42) | - | (54) |
| Other income / (charges) | (113) | (49) | (26) | (1) | (189) |
| **Income / (loss) before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **658** | **209** | **9** | **28** | **904** |
| Income tax | (166) | (35) | - | (7) | (208) |
| **Net income / (loss)** | **491** | **173** | **9** | **22** | **696** |
| **2014** | | | | | |
| **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 |
| **Total gross premiums** | **4,716** | **5,113** | **678** | **328** | **10,835** |
| Investment income | 2,568 | 2,077 | 54 | 49 | 4,748 |
| Fees and commission income | 324 | 94 | 41 | 8 | 467 |
| Other revenues | - | - | - | 2 | 2 |
| **Total revenues** | **7,608** | **7,284** | **773** | **387** | **16,052** |
| Commissions and expenses | 977 | 821 | 258 | 120 | 2,175 |
| 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.

# Results 2016 Europe

| Amounts in EUR millions | 2016 | 2015 | % |
|---|---|---|---|
| **Net underlying earnings** | **548** | **482** | **14%** |
| Tax on underlying earnings | 107 | 77 | 38% |
| **Underlying earnings before tax by business / country** | | | |
| The Netherlands | 534 | 537 | (1%) |
| United Kingdom | 59 | (27) | - |
| Central & Eastern Europe | 55 | 37 | 51% |
| Spain & Portugal | 8 | 12 | (38%) |
| **Underlying earnings before tax** | **655** | **559** | **17%** |
| Fair value items | (41) | (18) | (121%) |
| Gains / (losses) on investments | 342 | 411 | (17%) |
| Net impairments | (10) | (22) | 53% |
| Other income / (charges) | (658) | (1,205) | 45% |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **288** | **(275)** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 7 | 6 | 19% |
| Income tax | (161) | 54 | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (7) | (6) | (19%) |
| **Net income** | **127** | **(221)** | **-** |
| Life insurance gross premiums | 12,493 | 11,356 | 10% |
| Accident and health insurance premiums | 320 | 345 | (8%) |
| General insurance premiums | 536 | 717 | (25%) |
| **Total gross premiums** | **13,348** | **12,419** | **7%** |
| Investment income | 3,886 | 4,693 | (17%) |
| Fees and commission income | 495 | 501 | (1%) |
| Other revenues | 2 | 2 | 47% |
| **Total revenues** | **17,732** | **17,615** | **1%** |
| Commissions and expenses | 2,058 | 2,368 | (13%) |
| of which operating expenses | 1,445 | 1,442 | - |

| **New life sales**<br>Amounts in EUR millions | **2016** | 2015 | % |
|---|---|---|---|
| The Netherlands | 111 | 130 | (15%) |
| United Kingdom | 66 | 72 | (8%) |
| Central & Eastern Europe | 83 | 91 | (9%) |
| Spain & Portugal | 39 | 39 | 1% |
| **Total recurring plus 1/10 single** | **299** | **332** | **(10%)** |

| Amounts in EUR million | **2016** | 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)** | **2016** | 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% |
| **Total gross deposits** | **12,773** | **11,489** | **11%** |

| **Exchange rates**<br>Per 1 EUR | Weighted average rate<br>**2016** | 2015 |
|---|---|---|
| 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 |

# Results 2016 Europe

Net income improved to EUR 127 million in 2016 compared with 2015 driven by higher underlying earnings before tax, and lower losses from other charges. 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

Net income amounted to EUR 127 million in 2016 compared with a loss of EUR 221 million in 2015. Drivers of the improvement were higher underlying earnings before tax, and lower losses from other charges. 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 566 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 33 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 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.

### 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.

# Results 2015 Europe

| Amounts in EUR millions | 2015 | 2014 | % |
|---|---|---|---|
| **Net underlying earnings** | **482** | **638** | **(25%)** |
| Tax on underlying earnings | 77 | 133 | (42%) |
| **Underlying earnings before tax by business / country** | | | |
| Netherlands | 537 | 558 | (4%) |
| United Kingdom | (27) | 125 | - |
| Central & Eastern Europe | 37 | 60 | (39%) |
| Spain & Portugal [1)] | 12 | 28 | (56%) |
| **Underlying earnings before tax** | **559** | **771** | **(27%)** |
| Fair value items | (18) | (231) | 92% |
| Gains / (losses) on investments | 411 | 606 | (32%) |
| Net impairments | (22) | (54) | 58% |
| Other income / (charges) | (1,205) | (189) | - |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **(275)** | **904** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 6 | 2 | - |
| Income tax | 54 | (208) | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (6) | (2) | - |
| **Net income** | **(221)** | **696** | **-** |
| Life insurance gross premiums | 11,356 | 9,759 | 16% |
| Accident and health insurance premiums | 345 | 351 | (2%) |
| General insurance premiums | 717 | 725 | (1%) |
| **Total gross premiums** | **12,419** | **10,835** | **15%** |
| Investment income | 4,693 | 4,748 | (1%) |
| Fees and commission income | 501 | 467 | 7% |
| Other revenues | 2 | 2 | (20%) |
| **Total revenues** | **17,615** | **16,052** | **10%** |
| Commissions and expenses | 2,368 | 2,175 | 9% |
| of which operating expenses | 1,442 | 1,401 | 3% |

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

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

| Amounts in EUR million | 2015 | 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)** | 2015 | 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%) |
| **Total gross deposits** | **11,489** | **8,289** | **39%** |

| **Exchange rates** Per 1 EUR | Weighted average rate 2015 | 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 |

# Results 2015 Europe

The net loss in 2015 was EUR 221 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 221 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 loss of EUR 18 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 661 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 7 million in 2015, as positive revaluations on real estate more than offset fair value losses on the guarantee portfolio and fair value losses on interest rate hedges. 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.

### 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.

## 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.

# 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[1], 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[2].

## 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[3].

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.

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.

1 Verbond van Verzekeraars, Verzekerd van cijfers, The Hague, 2016.
2 Assurantie Magazine, AM Jaarcijfers. Deventer, 2016.
3 Metrixlab brandtrackers.

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.

### Sales and distribution

Aegon the Netherland's 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.

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 de 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[1].

For the majority of company and industry customers, Aegon the Netherlands provides a full range of pension products and services. In addition, TKP Pensioen 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.

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

## 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[1]

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 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.

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

## Regulation and supervision

### General

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The 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 regulator 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).

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 BBRD 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,

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's 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.

# 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.

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 [1]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 advisor's 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 UKs 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

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

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[1] '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[2] 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.

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.

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.

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.

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'.

# 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 Powszechne Towarzystwo Emerytalne Spółka Akcyjna);
- Aegon Turkey (Aegon Emeklilik ve Hayat A.Ş.);
- Aegon Romania Pension Administrator Co. (Aegon Pensii Societate de Administrare a Fondurilor de Pensii Private S.A);
- Aegon Czech Life (Aegon Pojišťovna, a.s);
- Aegon Slovakia Life (Aegon Životná poisťovňa, a.s.); 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[1].

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.

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

### 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 Esential, 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 Esential.

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[1].

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.[2] 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[3]. In Turkey, Aegon was ranked nineth based on written premium at the end of November[4]. 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[5]. For managed assets, in November 2016, Aegon was ranked fifth in the Slovakian private pension market[6]. In December 2016, Aegon ranked tenth in terms of both the number of participants and managed assets in Poland[7]. 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[8].

1 Source: KNF, 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. Webpage visited February 9, 2017.
8 Source: APAPR, http://www.apapr.ro/statistics.html. Webpage visited February 9, 2017.

## 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's 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).

# 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 Servicos 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[1]. 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[2].

## 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.

### 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 Direccion General de Seguros y Fondos de Pensiones (DGSFP), the regulatory authority for the Spanish insurance industry. Spanish regulations incorporate all requirements from the relevant EU directives.

The regulatory authority for the Portuguese insurance industry is the Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF). Insurance companies are required to report to the ASF on a monthly basis (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.

## 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 'one 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.

# Results 2016 Asia

| | Amounts in USD millions | | | Amounts in EUR millions | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % | **2016** | 2015 | % |
| **Net underlying earnings** | **(7)** | **(4)** | **(79%)** | **(6)** | **(3)** | **(80%)** |
| Tax on underlying earnings | 30 | 27 | 14% | 27 | 24 | 15% |
| **Underlying earnings before tax by business / country** | | | | | | |
| High net worth businesses | 61 | 45 | 37% | 55 | 40 | 39% |
| Aegon Insights[1)] | 1 | 5 | (86%) | 1 | 5 | (88%) |
| Strategic partnerships | (39) | (27) | (42%) | (35) | (25) | (41%) |
| **Underlying earnings before tax** | **23** | **23** | **3%** | **21** | **20** | **3%** |
| 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% |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **16** | **(31)** | **-** | **14** | **(27)** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 2 | 3 | (38%) | 2 | 3 | (37%) |
| Income tax | (30) | (3) | - | (27) | (3) | - |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (2) | (3) | 38% | (2) | (3) | 37% |
| **Net income** | **(14)** | **(33)** | **58%** | **(13)** | **(30)** | **58%** |
| 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%) |
| **Total gross premiums** | **1,355** | **2,019** | **(33%)** | **1,225** | **1,819** | **(33%)** |
| Investment income | 257 | 216 | 19% | 232 | 194 | 19% |
| Fees and commission income | 67 | 69 | (3%) | 61 | 62 | (3%) |
| **Total revenues** | **1,680** | **2,304** | **(27%)** | **1,517** | **2,076** | **(27%)** |
| Commissions and expenses | 257 | 268 | (4%) | 232 | 242 | (4%) |
| of which operating expenses | 161 | 143 | 13% | 146 | 129 | 13% |

[1] Formerly known as 'Aegon Direct & Affinity Marketing Services'.

| 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% |
| **Total recurring plus 1/10 single** | **142** | **193** | **(26%)** | **128** | **173** | **(26%)** |

| 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%) |
| **Total gross deposits** | **337** | **453** | **(26%)** | **304** | **408** | **(25%)** |

| | 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 | **2016** | 2015 |
| US dollar | 1.1069 | 1.1100 |
| Chinese Yuan Renminbi | 7.3364 | 6.9598 |

# Results 2016 Asia

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.

- 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.

# Results 2015 Asia

| | Amounts in USD millions | | | Amounts in EUR millions | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % | 2015 | 2014 | % |
| **Net underlying earnings** | **(4)** | **(34)** | **89%** | **(3)** | **(26)** | **87%** |
| Tax on underlying earnings | 27 | 12 | 130% | 24 | 9 | 176% |
| **Underlying earnings before tax by business / country** | | | | | | |
| High net worth businesses | 45 | 17 | 170% | 40 | 13 | - |
| Aegon Insights[1)] | 5 | (2) | - | 5 | (1) | - |
| Strategic partnerships | (27) | (38) | 27% | (25) | (29) | 15% |
| **Underlying earnings before tax** | **23** | **(23)** | **-** | **20** | **(17)** | **-** |
| Fair value items | 7 | 4 | 108% | 7 | 3 | 150% |
| Gains / (losses) on investments | 7 | 6 | 13% | 7 | 5 | 35% |
| Net impairments | - | (1) | 73% | - | (1) | 68% |
| Other income / (charges) | (68) | 5 | - | (61) | 4 | - |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **(31)** | **(9)** | **-** | **(27)** | **(7)** | **-** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 3 | (3) | - | 3 | (2) | - |
| Income tax | (3) | (12) | 76% | (3) | (9) | 71% |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (3) | 3 | - | (3) | 2 | - |
| **Net income** | **(33)** | **(21)** | **(57%)** | **(30)** | **(16)** | **(89%)** |
| Life insurance gross premiums | 1,902 | 1,458 | 30% | 1,713 | 1,097 | 56% |
| Accident and health insurance premiums | 117 | 136 | (14%) | 105 | 102 | 3% |
| **Total gross premiums** | **2,019** | **1,594** | **27%** | **1,819** | **1,199** | **52%** |
| Investment income | 216 | 164 | 31% | 194 | 124 | 57% |
| Fees and commission income | 69 | 70 | (1%) | 62 | 53 | 18% |
| **Total revenues** | **2,304** | **1,829** | **26%** | **2,076** | **1,376** | **51%** |
| Commissions and expenses | 268 | 256 | 5% | 242 | 192 | 26% |
| of which operating expenses | 143 | 146 | (2%) | 129 | 110 | 17% |

[1] Formerly known as 'Aegon Direct & Affinity Marketing Services'.

| 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% |
| **Total recurring plus 1/10 single** | **193** | **152** | **27%** | **173** | **114** | **52%** |

| 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%) |
| **Total gross deposits** | **453** | **699** | **(35%)** | **408** | **526** | **(22%)** |

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

**Exchange rates**

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

# 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.
- 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.

# Overview of Asia

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.

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[1]

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[2]

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

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.

### Hong Kong and Singapore: TLB

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.

# Results 2016 Aegon Asset Management

| Amounts in EUR millions | 2016 | 2015 | % |
|---|---|---|---|
| **Net underlying earnings** | **99** | **120** | **(17%)** |
| Tax on underlying earnings | 50 | 50 | (2%) |
| **Underlying earnings before tax by business / country** | | | |
| 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%) |
| **Underlying earnings before tax** | **149** | **170** | **(12%)** |
| Fair value items | - | - | - |
| Gains / (losses) on investments | 3 | 3 | 8% |
| Net impairments | (5) | - | - |
| Other income / (charges) | (2) | (1) | (16%) |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **145** | **172** | **(15%)** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 19 | 19 | (3%) |
| Income tax | (48) | (50) | 5% |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (19) | (19) | 3% |
| **Net income** | **97** | **121** | **(20%)** |
| Management fees | 503 | 504 | - |
| Performance fees | 34 | 48 | (29%) |
| Other | 63 | 61 | 3% |
| **Total revenues** | **601** | **614** | **(2%)** |
| Commissions and expenses | 486 | 487 | - |
| of which operating expenses | 451 | 444 | 2% |
| Cost / income ratio | 75.1% | 72.3% | |

| Amounts in EUR millions | 2016 | 2015 | % |
|---|---|---|---|
| **Gross flows other third-party** | | | |
| Americas | 4,536 | 2,329 | 95% |
| The Netherlands | 4,656 | 4,080 | 14% |
| United Kingdom | 4,831 | 7,538 | (36%) |
| Rest of World [1)] | (317) | (389) | 19% |
| Strategic partnerships | 32,660 | 20,165 | 62% |
| **Total gross flows other third-party** | **46,366** | **33,722** | **37%** |
| **Net flows other third-party** | | | |
| Americas | 499 | 307 | 63% |
| The Netherlands | 3,669 | 2,897 | 27% |
| United Kingdom | (865) | 3,490 | - |
| Rest of World [1)] | 62 | (27) | - |
| Strategic partnerships | (402) | 1,568 | - |
| **Total net flows other third-party** | **2,964** | **8,235** | **(64%)** |

[1] Rest of world include intragroup eliminations from internal sub-advised agreements

| **Exchange rates** | Weighted average rate | |
|---|---|---|
| Per 1 EUR | **2016** | 2015 |
| 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 |

# Results 2016 Aegon Asset Management

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.

# Results 2015 Aegon Asset Management

| Amounts in EUR millions | 2015 | 2014 | % |
|---|---|---|---|
| **Net underlying earnings** | **120** | **80** | **51%** |
| Tax on underlying earnings | 50 | 36 | 41% |
| **Underlying earnings before tax by business / country** | | | |
| 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% |
| **Underlying earnings before tax** | **170** | **115** | **48%** |
| Fair value items | - | - | - |
| Gains / (losses) on investments | 3 | 1 | - |
| Net impairments | - | - | - |
| Other income / (charges) | (1) | (1) | (38%) |
| **Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)** | **172** | **115** | **49%** |
| *Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | 19 | 8 | 145% |
| Income tax | (50) | (36) | (41%) |
| *Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax* | (19) | (8) | (145%) |
| **Net income** | **121** | **79** | **53%** |
| Management fees | 504 | 385 | 31% |
| Performance fees | 48 | 12 | - |
| Other | 61 | 54 | 14% |
| **Total revenues** | **614** | **450** | **36%** |
| 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 | % |
|---|---|---|---|
| **Gross flows other third-party** | | | |
| Americas | 2,329 | 3,123 | (25%) |
| The Netherlands | 4,080 | 2,542 | 60% |
| United Kingdom | 7,538 | 5,388 | 40% |
| Rest of World [1] | (389) | 507 | - |
| Strategic partnerships | 20,165 | 7,780 | 159% |
| **Total gross flows other third-party** | **33,722** | **19,340** | **74%** |
| **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 [1] | (27) | 393 | - |
| Strategic partnerships | 1,568 | 3,304 | (53%) |
| **Total net flows other third-party** | **8,235** | **4,215** | **95%** |

[1] Rest of world include intragroup eliminations from internal sub-advised agreements

| **Exchange rates** | Weighted average rate | |
|---|---|---|
| Per 1 EUR | 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 |

# Results 2015 Aegon Asset Management

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.

# 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.

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 Nederlande 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 Yinhua Fund 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 Paribus 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.

# 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.

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.

**Supporting and facilitating:**

- 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[1], 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.

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

## 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 342-359 of this Annual Report.

| Risk category | Description | Appetite |
|---|---|---|
| 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.

### 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 are 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.

### 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.

# 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:

| | December 31, 2016 [1), 2), 3)] |
|---|---|
| Group own funds | 18,112 |
| Group SCR | 11,524 |
| Group Solvency II ratio | 157% |

[1] The Solvency II ratios are estimates, 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.
[2] The Solvency II ratios are based on Aegon's partial internal model.
[3] Aegon Bank is not included in the Group Solvency II ratio.

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:

| | Capitalization December 31, 2016 [1), 2)] |
|---|---|
| Aegon USA (Life entities) (RBC CAL) | 440% |
| Aegon the Netherlands (Solvency II ratio) | 135% |
| Aegon United Kingdom (Solvency II ratio) | 156% |

[1] The Solvency II ratios are estimates, are not final until filed with the regulator and subject to supervisory review.
[2] 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[1], 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.

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

### Aegon United Kingdom

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:

| | Scenario | Group | US | NL | UK |
|---|---|---|---|---|---|
| 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 [1] | +100 bps | +2% | 0% | +6% | +17% |
| US credit defaults [2] | ~+200 bps | (17%) | (22%) | - | - |
| Dutch mortgage spreads [3] | +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%) | - |

[1] Non-government bonds credit spreads.
[2] Additional defaults for 1 year including rating migration of structured products.
[3] 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**

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

## 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% SCR | Caution | 120% - 130% SCR | 300% - 350% RBC | Re-assess capital plan and risk positions. |
| 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.

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) [1), 3)] | 100% Company Action Level (NAIC RBC CAL) | 440% of combined CAL | ~EUR 7.4 bln |
| Aegon the Netherlands [2), 3)] | 100% Solvency II SCR | 135% Solvency II SCR | ~EUR 1.3 bln |
| Aegon United Kingdom [3)] | 100% Solvency II SCR | 156% Solvency II SCR | ~EUR 1.0 bln |

[1] 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.
[2] Including Aegon Bank.
[3] 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 busines 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.

## 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 fungibilty 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 |
|---|---|---|
| **Unrestricted Tier 1**<br>■ Equity (Share capital and share premium).<br>■ Reconciliation Reserve.<br><br>**Restricted Tier 1**<br>■ Perpetual subordinated capital instruments with loss absorption. | ■ Dated or perpetual<br>■ Subordinated capital instruments.<br>  ■ With an original maturity of at least 10 years.<br>  ■ Limited loss absorption.<br>  ■ With suspension of payments and deferral of interest. | ■ Dated or perpetual<br>■ Subordinated capital instruments.<br>  ■ With an original maturity of at least 5 years.<br>  ■ Limited loss absorption.<br>  ■ With suspension of payments and deferral of interest.<br>■ Net deferred tax assets. |

### 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 ringfenced for 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's 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.

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 |
| **Total Tiers** | **18,112** | **18,112** |

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.

### 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.

## 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.

# In control statement

## Internal risk management and control systems

The Executive Board is responsible for designing, implementing and maintaining internal controls, including proper accounting records and other management information suitable for running the business.

Aegon's internal audit function assists the Executive Board in maintaining effective controls by independently and objectively evaluating the adequacy and effectiveness of the organization's internal control and risk management systems. Criteria established under 'Internal Control – Integrated Framework', the Treadway Commission's Committee of Sponsoring Organizations (COSO, 2013 framework), are used by Aegon's internal audit function to analyze and make recommendations to the Executive Board concerning the effectiveness of the Company's internal control framework. Based on risk assessments performed, the Executive Board, under the supervision of the Supervisory Board and its Audit Committee, is responsible for determining the overall internal audit work and for monitoring the integrity of the financial statements of Aegon N.V.

In addition, the Executive Board is responsible for Aegon's enterprise risk management under the supervision of the Supervisory Board and its Risk Committee. Aegon's risk management function monitors and controls Aegon's solvency position, and ensures that risk taking is within Aegon's risk tolerance levels. The Executive Board is timely informed of any risks that post a threat to the Company's economic/statutory solvency, reputation, reliability of financial reporting or operations.

The risk management function develops and monitors compliance with risk policies and risk frameworks. This also involves the facilitation of risk identification and reviewing risk assessments performed by the businesses. The risk management function is responsible for identifying good practices in risk management and working with management to ensure that Aegon adheres to those practices.

Finally, both the regulatory compliance function and the Operational & Conduct Risk Management function play key roles in monitoring the Company's adherence to external rules and regulations and internal policies.

On the basis of the above, Aegon's Executive Board states the following with respect to risks to the Company's financial reporting:

- Aegon's risk management and control systems provide reasonable assurance that the Company's financial reporting does not contain any material inaccuracies; and
- Aegon's risk management and control systems functioned properly in 2016.

The risk management and control systems provide reasonable assurance for the reliability of financial reporting and the preparation and fair presentation of Aegon's published financial statements. They cannot, however, provide absolute assurance that a misstatement of Aegon's financial statements can be prevented or detected.

The statements in this section are not statements in accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act.

## Responsibilities for the financial statements and the Annual Report

The Executive Board is responsible for preparing the financial statements and the Annual Report in accordance with Dutch law and the International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

As required by section 5:25c of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), the Executive Board confirms that, to the best of its knowledge, the financial statements prepared in accordance with applicable accounting standards give a true and fair view of the assets, liabilities, financial condition and profit or loss of the Company and the undertakings included in the consolidation as a whole; and that the Report of the Executive Board gives a fair view of the position at reporting date of the Company, the development and performance of the business during the financial year, and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that the Company faces.

The Hague, the Netherlands, March 22, 2017

**The Executive Board of Aegon N.V.**

A.R. Wynaendts, CEO

# 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.

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 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.

# 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.

## 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.

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 [1)] | 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 |

[1] 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 US. 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.

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.

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.

#### 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.[1]

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.

### 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.

## 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.

### 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.

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 appraised 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.

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.

# 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)[1].

### 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.

### 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.

# 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.

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.

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:

| Base fee for membership of the Supervisory Board | EUR / year |
|---|---|
| Chairman | 80,000 |
| Vice Chairman | 50,000 |
| Member | 40,000 |

| Fee for membership of a Supervisory Board committee | EUR / year |
|---|---|
| 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 |

| Attendance fees | EUR |
|---|---|
| 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 301.

## 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.

### 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.

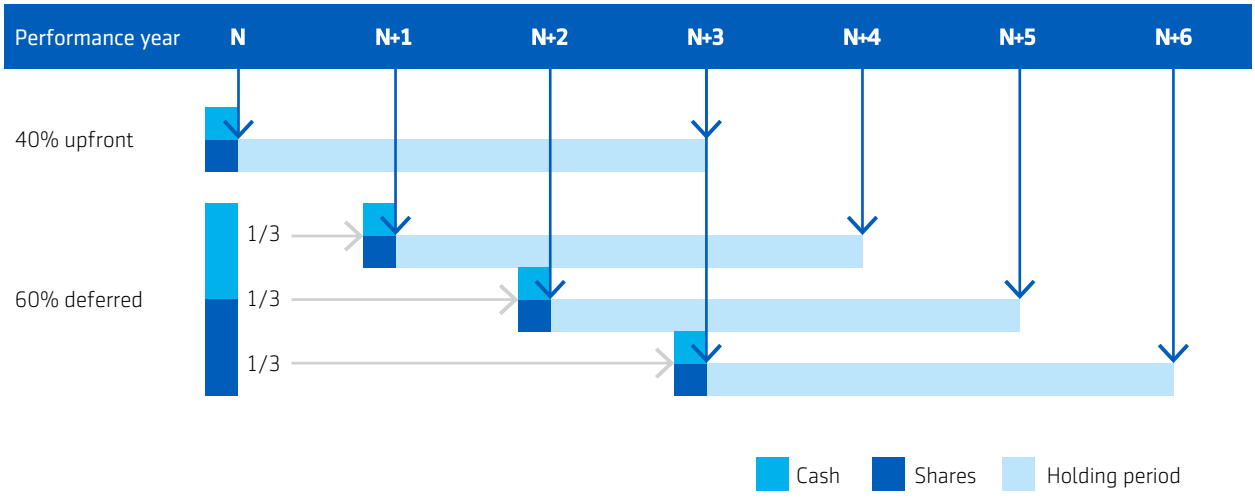
The allocated variable compensation consists of equal parts of cash and shares, of which 40% is paid out (or vests) in the year following the performance year, and 60% is deferred to later years. This deferred portion remains conditional until it vests.

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[1] 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.

1 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.




## 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 financial risk adjusted based | Group market consistent value of new business | 17.5% | 17.5% |
| | Normalized operational free cash flow | | |
| | Group pre-tax return on economic required capital | | |
| Group non financial business indicators | Objectives measuring corporate responsibility, strategy implementation and sustainability | 30.0% | 40.0% |
| | Objectives measuring Aegon's control environment | | |
| Personal objectives | Individual basket of strategic and personal objectives related to Aegon's strategy | 37.5% | 27.5% |

## 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.

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 page 113 and 300.

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[1] 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).

1 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.

# 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.

## 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 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 53 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.

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.

# 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.

# 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. 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.

# 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.

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.**

## Report of Independent Registered Public Accounting Firm

### To: The Annual General Meeting of Shareholders' and Supervisory Board of Aegon N.V.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**PricewaterhouseCoopers Accountants N.V.**

Amsterdam, The Netherlands, March 22, 2017

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# Financial information

2016

AEGON

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# Exchange rates

## Exchange rates at December 31,

| | | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | EUR | USD | GBP | CAD | EUR | USD | GBP | CAD |
| 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

| | | 2016 | | | | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | EUR | USD | GBP | CAD | EUR | USD | GBP | CAD | EUR | USD | GBP | CAD |
| 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 | - |

# Consolidated income statement of Aegon N.V.

For the year ended December 31

| Amounts in EUR million (except per share data) | Note | 2016 | 2015 [1)] | 2014 [1)] |
|---|---|---|---|---|
| Premium income | 6 | 23,453 | 22,925 | 19,864 |
| Investment income | 7 | 7,788 | 8,525 | 8,148 |
| Fee and commission income | 8 | 2,408 | 2,438 | 2,137 |
| Other revenues | | 7 | 14 | 7 |
| **Total revenues** | | **33,655** | **33,902** | **30,157** |
| Income from reinsurance ceded | 9 | 3,687 | 3,321 | 2,906 |
| Results from financial transactions | 10 | 15,949 | 401 | 13,772 |
| Other income | 11 | 66 | 83 | 61 |
| **Total income** | | **53,357** | **37,707** | **46,896** |
| Premiums paid to reinsurers | 6 | 3,176 | 2,979 | 3,011 |
| Policyholder claims and benefits | 12 | 41,974 | 26,443 | 36,214 |
| Profit sharing and rebates | 13 | 49 | 31 | 17 |
| Commissions and expenses | 14 | 6,351 | 6,598 | 5,629 |
| Impairment charges / (reversals) | 15 | 95 | 1,251 | 87 |
| Interest charges and related fees | 16 | 347 | 412 | 371 |
| Other charges | 17 | 700 | 774 | 172 |
| **Total charges** | | **52,693** | **38,489** | **45,502** |
| **Income before share in profit / (loss) of joint ventures, associates and tax** | | **665** | **(781)** | **1,395** |
| Share in profit / (loss) of joint ventures | | 137 | 142 | 56 |
| Share in profit / (loss) of associates | | 3 | 5 | 24 |
| **Income / (loss) before tax** | | **805** | **(634)** | **1,475** |
| Income tax (expense) / benefit | 18 | (219) | 111 | (280) |
| **Net income / (loss)** | | **586** | **(523)** | **1,195** |
| **Net income / (loss) attributable to:** | | | | |
| Owners of Aegon N.V. | | 586 | (524) | 1,194 |
| Non-controlling interests | | - | 1 | 1 |
| **Earnings per share (EUR per share)** | 19 | | | |
| Basic earnings per common share | | 0.22 | (0.31) | 0.49 |
| Basic earnings per common share B | | 0.01 | (0.01) | 0.01 |
| Diluted earnings per common share | | 0.22 | (0.31) | 0.49 |
| Diluted earnings per common share B | | 0.01 | (0.01) | 0.01 |

[1] 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.

# Consolidated statement of comprehensive income of Aegon N.V.

For the year ended December 31

| Amounts in EUR million | 2016 | 2015 [1)] | 2014 [1)] |
|---|---|---|---|
| **Net income / (loss)** | **586** | **(523)** | **1,195** |
| **Items that will not be reclassified to profit or loss:** | | | |
| 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 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| 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) |
| **Total other comprehensive income / (loss)** | **(1,301)** | **(380)** | **6,062** |
| **Total comprehensive income / (loss)** | **(715)** | **(903)** | **7,257** |
| **Total comprehensive income/ (loss) attributable to:** | | | |
| Owners of Aegon N.V. | (729) | (903) | 7,257 |
| Non-controlling interests | 15 | - | (1) |

[1] 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.

# Consolidated statement of financial position of Aegon N.V.

As at December 31

| Amounts in EUR million | Note | 2016 | 2015 [1] | January 1, 2015 [1] |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 21 | 11,347 | 9,594 | 10,610 |
| Assets held for sale | 22 | 8,705 | - | 9,881 |
| Investments | 23 | 156,813 | 160,792 | 153,653 |
| Investments for account of policyholders | 24 | 203,610 | 200,226 | 191,467 |
| Derivatives | 25 | 8,318 | 11,545 | 28,014 |
| Investments in joint ventures | 26 | 1,614 | 1,561 | 1,468 |
| Investments in associates | 27 | 270 | 242 | 140 |
| Reinsurance assets | 28 | 11,208 | 11,257 | 9,593 |
| Defined benefit assets | 41 | 51 | 41 | 38 |
| Deferred tax assets | 43 | 87 | 25 | 27 |
| Deferred expenses | 29 | 11,423 | 10,997 | 10,019 |
| Other assets and receivables | 30 | 10,667 | 7,549 | 7,563 |
| Intangible assets | 31 | 1,820 | 1,901 | 2,073 |
| **Total assets** | | **425,935** | **415,729** | **424,547** |
| **Equity and liabilities** | | | | |
| Shareholders' equity | 32 | 20,913 | 22,684 | 24,183 |
| Other equity instruments | 33 | 3,797 | 3,800 | 3,827 |
| **Issued capital and reserves attributable to owners of Aegon N.V.** | | **24,710** | **26,485** | **28,010** |
| Non-controlling interests | | 23 | 9 | 9 |
| **Group equity** | | **24,734** | **26,494** | **28,019** |
| Subordinated borrowings | 34 | 767 | 759 | 747 |
| Trust pass-through securities | 35 | 156 | 157 | 143 |
| Insurance contracts | 36 | 119,569 | 123,042 | 111,927 |
| Insurance contracts for account of policyholders | 36 | 120,929 | 112,679 | 102,250 |
| Investment contracts | 37 | 19,572 | 17,718 | 15,359 |
| Investment contracts for account of policyholders | 37 | 84,774 | 90,119 | 91,849 |
| Derivatives | 25 | 8,878 | 10,890 | 26,048 |
| Borrowings | 39 | 13,153 | 12,445 | 14,158 |
| Provisions | 40 | 173 | 175 | 322 |
| Defined benefit liabilities | 41 | 4,817 | 4,471 | 4,404 |
| Deferred gains | 42 | 64 | 112 | 82 |
| Deferred tax liabilities | 43 | 2,318 | 2,323 | 3,004 |
| Liabilities held for sale | 22 | 8,816 | - | 7,810 |
| Other liabilities | 44 | 16,978 | 14,074 | 18,152 |
| Accruals | 45 | 237 | 272 | 272 |
| **Total liabilities** | | **401,201** | **389,236** | **396,528** |
| **Total equity and liabilities** | | **425,935** | **415,729** | **424,547** |

[1] 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.

# Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2016

| Amounts in EUR million | Note | Share capital | Retained earnings | Revaluation reserves | Remeasurement of defined benefit plans | Other reserves | Other equity instruments | Issued capital and reserves [1] | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2016** | | **8,387** | **8,075** | **6,471** | **(1,532)** | **1,283** | **3,800** | **26,485** | **9** | **26,494** |
| Net income / (loss) recognized in the income statement | | - | 586 | - | - | - | - | 586 | - | 586 |
| **Other comprehensive income:** | | | | | | | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | | | | | | | |
| Changes in revaluation reserve real estate held for own use | | - | - | 8 | - | - | - | 8 | - | 8 |
| Remeasurements of defined benefit plans | | - | - | - | (392) | - | - | (392) | - | (392) |
| Income tax relating to items that will not be reclassified | | - | - | (3) | 89 | - | - | 86 | - | 86 |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | | | | | |
| Gains / (losses) on revaluation of available-for-sale investments | | - | - | 854 | - | - | - | 854 | - | 854 |
| (Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments | | - | - | (2,122) | - | - | - | (2,122) | - | (2,122) |
| Changes in cash flow hedging reserve | | - | - | (54) | - | - | - | (54) | - | (54) |
| Movements in foreign currency translation and net foreign investment hedging reserves | | - | - | (38) | 16 | 91 | - | 69 | - | 69 |
| Equity movements of joint ventures | | - | - | - | - | 9 | - | 9 | - | 9 |
| Equity movements of associates | | - | - | - | - | 3 | - | 3 | - | 3 |
| Income tax relating to items that may be reclassified | | - | - | 264 | - | (39) | - | 225 | - | 225 |
| Other | | - | (2) | - | - | - | - | (2) | 14 | 12 |
| **Total other comprehensive income / (loss)** | | **-** | **(2)** | **(1,090)** | **(288)** | **64** | **-** | **(1,315)** | **14** | **(1,301)** |
| **Total comprehensive income / (loss) for 2016** | | **-** | **584** | **(1,090)** | **(288)** | **64** | **-** | **(729)** | **15** | **(715)** |
| Shares issued | | 1 | - | - | - | - | - | 1 | - | 1 |
| Shares withdrawn | | (10) | (372) | - | - | - | - | (382) | - | (382) |
| Issuance and purchase of treasury shares | | - | (27) | - | - | - | - | (27) | - | (27) |
| Dividends paid on common shares | | (186) | (304) | - | - | - | - | (490) | - | (490) |
| Dividend withholding tax reduction | | - | (2) | - | - | - | - | (2) | - | (2) |
| Coupons on perpetual securities | | - | (105) | - | - | - | - | (105) | - | (105) |
| Coupons on non-cumulative subordinated notes | | - | (28) | - | - | - | - | (28) | - | (28) |
| Incentive plans | | - | (9) | - | - | - | (3) | (12) | - | (12) |
| **At December 31, 2016** | **32, 33** | **8,193** | **7,812** | **5,381** | **(1,820)** | **1,347** | **3,797** | **24,710** | **23** | **24,734** |

[1] Issued capital and reserves attributable to owners of Aegon N.V.

# Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2015

| Amounts in EUR million | Note | Share capital | Retained earnings | Revaluation reserves | Remeasurement of defined benefit plans | Other reserves | Other equity instruments | Issued capital and reserves [1] | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2015 [3]** | | 8,597 | 8,975 | 8,308 | (1,611) | (86) | 3,827 | 28,010 | 9 | 28,019 |
| Net income / (loss) recognized in the income statement | | - | (524) | - | - | - | - | (524) | 1 | (523) |
| **Other comprehensive income:** | | | | | | | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | | | | | | | |
| Changes in revaluation reserve real estate held for own use | | - | - | 13 | - | - | - | 13 | - | 13 |
| Remeasurements of defined benefit plans | | - | - | - | 240 | - | - | 240 | - | 240 |
| Income tax relating to items that will not be reclassified | | - | - | (2) | (75) | - | - | (77) | - | (77) |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | | | | | |
| Gains / (losses) on revaluation of available-for-sale investments | | - | - | (2,175) | - | - | - | (2,175) | - | (2,175) |
| (Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments | | - | - | (485) | - | - | - | (485) | - | (485) |
| Changes in cash flow hedging reserve | | - | - | 446 | - | - | - | 446 | - | 446 |
| Movements in foreign currency translation and net foreign investment hedging reserves | | - | - | - | (86) | 1,505 | - | 1,419 | - | 1,419 |
| Equity movements of joint ventures | | - | - | - | - | (8) | - | (8) | - | (8) |
| Equity movements of associates | | - | - | - | - | (1) | - | (1) | - | (1) |
| Disposal of group assets [2] | | - | - | (468) | - | (76) | - | (544) | - | (544) |
| Income tax relating to items that may be reclassified | | - | - | 836 | - | (52) | - | 783 | - | 783 |
| Other | | - | 10 | - | - | - | - | 10 | (1) | 9 |
| **Total other comprehensive income / (loss)** | | **-** | **10** | **(1,837)** | **79** | **1,369** | **-** | **(379)** | **(1)** | **(380)** |
| **Total comprehensive income / (loss) for 2015** | | **-** | **(514)** | **(1,837)** | **79** | **1,369** | **-** | **(903)** | **-** | **(903)** |
| Shares issued and withdrawn | | 1 | - | - | - | - | - | 1 | - | 1 |
| Issuance and purchase of treasury shares | | - | 52 | - | - | - | - | 52 | - | 52 |
| Dividends paid on common shares | | (211) | (292) | - | - | - | - | (503) | - | (503) |
| Dividend withholding tax reduction | | - | 1 | - | - | - | - | 1 | - | 1 |
| Coupons on perpetual securities | | - | (111) | - | - | - | - | (111) | - | (111) |
| Coupons on non-cumulative subordinated notes | | - | (28) | - | - | - | - | (28) | - | (28) |
| Share options and incentive plans | | - | (7) | - | - | - | (27) | (33) | - | (33) |
| **At December 31, 2015** | **32, 33** | **8,387** | **8,075** | **6,471** | **(1,532)** | **1,283** | **3,800** | **26,485** | **9** | **26,494** |

[1] Issued capital and reserves attributable to owners of Aegon N.V.
[2] Refer to note 51 for details on the disposals
[3] 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.

# Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2014

| Amounts in EUR million | Note | Share capital | Retained earnings | Revaluation reserves | Remeasurement of defined benefit plans | Other reserves | Other equity instruments | Issued capital and reserves [1] | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2014 (as previously stated)** | | 8,701 | 8,361 | 3,023 | (706) | (1,778) | 5,015 | 22,616 | 10 | 22,626 |
| Changes in accounting policies relating to Deferred cost of reinsurance | | - | (110) | - | - | 5 | - | (105) | - | (105) |
| **At January 1, 2014 (restated) [2]** | | 8,701 | 8,252 | 3,023 | (706) | (1,773) | 5,015 | 22,512 | 10 | 22,521 |
| Net income / (loss) recognized in the income statement | | - | 1,194 | - | - | - | - | 1,194 | 1 | 1,195 |
| **Other comprehensive income:** | | | | | | | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | | | | | | | |
| Changes in revaluation reserve real estate held for own use | | - | - | 9 | - | - | - | 9 | - | 9 |
| Remeasurements of defined benefit plans | | - | - | - | (1,156) | - | - | (1,156) | - | (1,156) |
| Income tax relating to items that will not be reclassified | | - | - | (2) | 335 | - | - | 333 | - | 333 |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | | | | | |
| Gains / (losses) on revaluation of available-for-sale investments | | - | - | 6,759 | - | - | - | 6,759 | - | 6,759 |
| (Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments | | - | - | (702) | - | - | - | (702) | - | (702) |
| Changes in cash flow hedging reserve | | - | - | 1,188 | - | - | - | 1,188 | - | 1,188 |
| Movements in foreign currency translation and net foreign investment hedging reserves | | - | - | - | (84) | 1,738 | - | 1,654 | - | 1,654 |
| Equity movements of joint ventures | | - | - | - | - | 10 | - | 10 | - | 10 |
| Equity movements of associates | | - | - | - | - | (10) | - | (10) | - | (10) |
| Income tax relating to items that may be reclassified | | - | - | (1,968) | - | (50) | - | (2,018) | - | (2,018) |
| Other | | - | (4) | - | - | - | - | (4) | (1) | (5) |
| **Total other comprehensive income / (loss)** | | **-** | **(4)** | **5,285** | **(905)** | **1,687** | **-** | **6,063** | **(1)** | **6,062** |
| **Total comprehensive income / (loss) for 2014** | | **-** | **1,190** | **5,285** | **(905)** | **1,687** | **-** | **7,257** | **(1)** | **7,257** |
| Issuance and purchase of treasury shares | | - | (67) | - | - | - | - | (67) | - | (67) |
| Other equity instruments redeemed | | - | 11 | - | - | - | (1,184) | (1,173) | - | (1,173) |
| Dividends paid on common shares | | (104) | (266) | - | - | - | - | (370) | - | (370) |
| Coupons on perpetual securities | | - | (128) | - | - | - | - | (128) | - | (128) |
| Coupons on non-cumulative subordinated notes | | - | (24) | - | - | - | - | (24) | - | (24) |
| Share options and incentive plans | | - | 7 | - | - | - | (4) | 3 | - | 3 |
| **At December 31, 2014** | **32, 33** | **8,597** | **8,975** | **8,308** | **(1,611)** | **(86)** | **3,827** | **28,010** | **9** | **28,019** |

[1] Issued capital and reserves attributable to owners of Aegon N.V.

[2] 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.

# Consolidated cash flow statement of Aegon N.V.

For the year ended December 31

| Amounts in EUR million | Note | 2016 | 2015 [3] | 2014 [3] |
|---|---|---|---|---|
| **Income / (loss) before tax** | | **805** | (634) | 1,475 |
| Results from financial transactions | | (16,489) | (776) | (14,198) |
| 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 |
| **Adjustments of non-cash items** | | **(14,816)** | **2,293** | **(13,073)** |
| 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) |
| **Changes in accruals** | | **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) |
| **Cash flow movements on operating items not reflected in income** | | **4,258** | **2,875** | **(1,843)** |
| Tax paid | | (116) | (405) | 148 |
| Other | | 34 | (23) | 12 |
| **Net cash flows from operating activities** | | **3,319** | **914** | **4,122** |
| 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 |
| **Net cash flows from investing activities** | | **(1,078)** | **615** | **(71)** |
| Issuance of share capital | | - | 1 | - |
| Purchase of treasury shares | | (623) | (213) | (199) |
| Proceeds from TRUPS [1], subordinated loans and borrowings | | 3,711 | 1,821 | 3,862 |
| Repayment of perpetuals | | - | - | (1,173) |
| Repayment of TRUPS [1], 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) |
| **Net cash flows from financing activities** | | **(465)** | **(2,785)** | **715** |
| **Net increase / (decrease) in cash and cash equivalents [2]** | | **1,776** | **(1,257)** | **4,766** |
| 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 |
| **Net cash and cash equivalents at the end of the year** | **21** | **11,346** | **9,593** | **10,649** |

[1] Trust pass-through securities.

[2] 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).

[3] 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.

# 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 adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2016 is provided below in note 2.1.1 Adoption of new IFRS-EU 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-EU 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. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS-EU. Details are provided in note 2.9 Derivatives and note 24 Derivatives.

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.

#### 2.1.1 Adoption of new IFRS-EU 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[1];
- 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.

1 Not yet endorsed by the European Union.

### 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.

**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.

| | | 2015 (as previously reported) [1] | Change in accounting policy | | 2015 (restated) | 2014 (as previously reported) [1] | Change in accounting policy | | 2014 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Impact of changes in accounting policies on the consolidated income statement** | **Note** | | Deferred cost of reinsurance | Insurance accounting in UK | | | Deferred cost of reinsurance | Insurance accounting in UK | |
| Premium income | **6** | 20,311 | - | 2,614 | 22,925 | 19,864 | - | - | 19,864 |
| Policy holder claims and benefits | **12** | (23,830) | - | (2,614) | (26,443) | (36,214) | - | - | (36,214) |
| Commissions and expenses | **14** | (6,485) | 36 | (150) | (6,598) | (5,656) | 27 | - | (5,629) |
| Impairment charges / (reversals) | **15** | 22 | - | (1,274) | (1,251) | (87) | - | - | (87) |
| Income tax (expense) / benefit | **18** | (134) | (26) | 270 | 111 | (262) | (18) | - | (280) |
| **Impact on net income** | | | **10** | **(1,153)** | | | **9** | **-** | |
| **Earnings per share (EUR per share)** | **19** | | | | | | | | |
| Basic earnings per common share | | 0.23 | - | (0.54) | (0.31) | 0.49 | - | - | 0.49 |
| Basic earnings per common share B | | 0.01 | - | (0.01) | (0.01) | 0.01 | - | - | 0.01 |
| Diluted earnings per common share | | 0.23 | - | (0.54) | (0.31) | 0.49 | - | - | 0.49 |
| Diluted earnings per common share B | | 0.01 | - | (0.01) | (0.01) | 0.01 | - | - | 0.01 |
| **Earnings per common share calculation** | **19** | | | | | | | | |
| Net income / (loss) attributable to owners | | 619 | 10 | (1,153) | (524) | 1,186 | 9 | - | 1,194 |
| 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 | | 479 | 10 | (1,153) | (663) | 1,034 | 9 | - | 1,043 |
| 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 |

[1] As reported in Aegon's Annual Report dated March 25, 2016.

| Impact of changes in accounting policies on the consolidated statement of comprehensive income | Note | December 31, 2015 (as previously reported) [1] | Change in accounting policy: Deferred cost of reinsurance | Change in accounting policy: Insurance accounting in UK | December 31, 2015 (restated) | December 31, 2014 (as previously reported) [1] | Change in accounting policy: Deferred cost of reinsurance | Change in accounting policy: Insurance accounting in UK | December 31, 2014 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Net income** | | **619** | **10** | **(1,153)** | **(523)** | **1,186** | **9** | **-** | **1,195** |
| **Items that may be reclassified to profit or loss:** | | | | | | | | | |
| Movement in foreign currency translation and net foreign investment hedging reserves | **32.6** | 1,414 | (12) | 18 | 1,419 | 1,668 | (14) | - | 1,654 |
| **Net effect comprehensive income** | | **234** | **(2)** | **(1,135)** | **(903)** | **7,262** | **(5)** | **-** | **7,257** |
| **Total comprehensive income attributable to:** | | | | | | | | | |
| Owners of Aegon N.V. | | 234 | (2) | (1,135) | (903) | 7,262 | (5) | - | 7,257 |
| Non-controlling interests | | - | - | - | - | (1) | - | - | (1) |

[1] As reported in Aegon's Annual Report dated March 25, 2016.

| Impact of changes in accounting policies on the consolidated statement of financial position | Note | December 31, 2015 (as previously reported) [1] | Change in accounting policy: Deferred cost of reinsurance | Change in accounting policy: Insurance accounting in UK | December 31, 2015 (restated) | January 1, 2015 (as previously reported) [1] | Change in accounting policy: Deferred cost of reinsurance | Change in accounting policy: Insurance accounting in UK | January 1, 2015 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| 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 |
| **Equity and liabilities** | | | | | | | | | |
| Shareholders' equity | **32** | 23,931 | (112) | (1,135) | 22,684 | 24,293 | (110) | - | 24,183 |
| 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** | 2,835 | (247) | (266) | 2,323 | 3,249 | (245) | - | 3,004 |

[1] As reported in Aegon's Annual Report dated March 25, 2016.

| Impact of changes in accounting policies on the statement of changes in equity | Note | December 31, 2015 (as previously reported) [1] | Change in accounting policy: Deferred cost of reinsurance | Change in accounting policy: Insurance accounting in UK | December 31, 2015 (restated) | December 31, 2014 (as previously reported) [1] | Change in accounting policy: Deferred cost of reinsurance | Change in accounting policy: Insurance accounting in UK | December 31, 2014 (restated) |
|---|---|---|---|---|---|---|---|---|---|
| Share capital | **32.1** | 8,387 | - | - | 8,387 | 8,597 | - | - | 8,597 |
| Retained earnings | **32** | 9,319 | (91) | (1,153) | 8,075 | 9,076 | (101) | - | 8,975 |
| Revaluation reserves | **32.4** | 6,471 | - | - | 6,471 | 8,308 | - | - | 8,308 |
| Remeasurement of defined benefit plans | **32.5** | (1,532) | - | - | (1,532) | (1,611) | - | - | (1,611) |
| Other reserves | **32.6** | 1,286 | (21) | 18 | 1,283 | (77) | (9) | - | (86) |
| **Shareholders' equity** | | **23,931** | **(112)** | **(1,135)** | **22,684** | **24,293** | **(110)** | **-** | **24,183** |

[1] 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.

### 2.1.3 Future adoption of new IFRS-EU 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 and IFRS 15 have been endorsed by the European Union. The amendment on applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts and the Clarifications to IFRS 15 have not yet been endorsed.

#### 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').

For these amendments EFRAG has issued a positive endorsement advice to the European Union and expects the European Union to come to a final endorsement decision in 2017. Once the European Union has endorsed the amendments, Aegon intends to 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 intends to 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.

### 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.

These standards have not yet been endorsed by the European Union.

## 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-EU. 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).

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.

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;
- Europe: which covers the following operating segments: 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.

For Europe, the underlying businesses (the Netherlands, United Kingdom including VA Europe, Central & Eastern Europe and Spain & Portugal) are separate operating segments which under IFRS 8 cannot be aggregated, therefore further details on these operating segments is provided for in the segment note (note 5 Segment information). 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:

| **Income statement – Underlying earnings** | Americas | The Netherlands | United Kingdom | New Markets | Holding and other activities | Elimina-tions | Segment total | Joint ventures and associates eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | |
| **Underlying earnings before tax** | 1,200 | 537 | 125 | 236 | (163) | 2 | **1,939** | 34 | **1,973** |
| Fair value items | (589) | 55 | (27) | 8 | (68) | - | (620) | (59) | (679) |
| Realized gains / (losses) on investments | (74) | 306 | 95 | 20 | - | - | 346 | (8) | 338 |
| 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 | 52 | - | - | - | - | - | 52 | - | 52 |
| **Income / (loss) before tax** | **(277)** | **857** | **220** | **215** | **(230)** | **2** | **786** | **(33)** | **754** |
| Income tax (expense) / benefit | 31 | (196) | (2) | (71) | 71 | - | (167) | 33 | (134) |
| **Net income / (loss)** | **(246)** | **661** | **218** | **144** | **(159)** | **2** | **619** | **-** | **619** |
| *Inter-segment underlying earnings* | (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 |
| **Total gross premiums** | **9,312** | **2,947** | **5,697** | **2,979** | **13** | **(112)** | **20,836** | **(524)** | **20,311** |
| Investment income | 3,680 | 2,277 | 2,327 | 291 | 387 | (385) | 8,576 | (51) | 8,525 |
| Fee and commission income | 1,704 | 351 | 43 | 813 | - | (278) | 2,633 | (195) | 2,438 |
| Other revenues | 9 | - | - | 2 | 7 | - | 19 | (5) | 14 |
| **Total revenues** | **14,705** | **5,575** | **8,067** | **4,086** | **406** | **(776)** | **32,064** | **(775)** | **31,289** |
| *Inter-segment revenues* | 24 | 2 | - | 356 | 393 | | | | |

The following table presents Aegon's 2015 segment results after adoption of the refinements of its segment reporting:

| **Income statement –Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | Segment total | Joint ventures and associates eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 1,200 | 537 | 122 | 37 | 12 | ***709*** | 20 | 170 | (163) | 2 | **1,939** | 34 | **1,973** |
| Fair value items | (589) | 55 | (25) | - | - | *30* | 7 | - | (68) | - | (620) | (59) | (679) |
| Realized gains / (losses) on investments | (74) | 306 | 103 | 2 | - | *411* | 7 | 3 | - | - | 346 | (8) | 338 |
| Impairment charges | (43) | (25) | - | (2) | - | *(27)* | - | - | - | - | (70) | (21) | (91) |
| Impairment reversals | 114 | 5 | - | - | - | *5* | - | - | - | - | 119 | - | 119 |
| Other income / (charges) | (938) | (22) | 27 | (2) | 17 | *20* | (61) | (1) | - | - | (980) | 21 | (959) |
| Run-off businesses | 52 | - | - | - | - | - | - | - | - | - | 52 | - | 52 |
| **Income / (loss) before tax** | **(277)** | **857** | **227** | **35** | **29** | ***1,148*** | **(27)** | **172** | **(230)** | **2** | **786** | **(33)** | **754** |
| Income tax (expense) / benefit | 31 | (196) | (2) | (11) | (7) | *(216)* | (3) | (50) | 71 | - | (167) | 33 | (134) |
| **Net income / (loss)** | **(246)** | **661** | **225** | **24** | **22** | ***932*** | **(30)** | **121** | **(159)** | **2** | **619** | **-** | **619** |
| *Inter-segment underlying earnings* | (220) | (55) | (63) | (14) | - | *(131)* | 77 | 264 | 10 | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2015** | | | | | | | | | | | | | |
| Life insurance gross premiums | 7,046 | 2,240 | 5,851 | 477 | 174 | *8,742* | 1,713 | - | 4 | (106) | 17,400 | (431) | 16,969 |
| Accident and health insurance | 2,266 | 234 | 47 | 1 | 64 | *345* | 105 | - | 6 | (6) | 2,717 | (14) | 2,703 |
| General insurance | - | 473 | - | 164 | 80 | *717* | - | - | 2 | - | 720 | (80) | 640 |
| **Total gross premiums** | **9,312** | **2,947** | **5,898** | **642** | **317** | ***9,805*** | **1,819** | **-** | **13** | **(112)** | **20,836** | **(524)** | **20,311** |
| Investment income | 3,680 | 2,277 | 2,331 | 45 | 41 | *4,693* | 194 | 7 | 392 | (391) | 8,576 | (51) | 8,525 |
| Fee and commission income | 1,704 | 351 | 98 | 39 | 13 | *501* | 62 | 650 | - | (284) | 2,633 | (195) | 2,438 |
| Other revenues | 9 | - | - | - | 2 | *2* | - | - | 7 | - | 19 | (5) | 14 |
| **Total revenues** | **14,705** | **5,575** | **8,327** | **726** | **373** | ***15,001*** | **2,076** | **657** | **412** | **(787)** | **32,064** | **(775)** | **31,289** |
| *Inter-segment revenues* | 24 | 2 | - | - | - | *2* | 101 | 261 | 399 | | | | |

The following table presents Aegon's 2014 segment results as previously reported:

| **Income statement – Underlying earnings** | Americas | The Netherlands | United Kingdom | New Markets | Holding and other activities | Elimina-tions | Segment total | Joint ventures and associates eliminations | Consoli-dated |
|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | |
| **Underlying earnings before tax** | 1,134 | 558 | 115 | 196 | (139) | 1 | **1,865** | (9) | **1,856** |
| Fair value items | (497) | (207) | (15) | (6) | (82) | - | (807) | 2 | (806) |
| 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) |
| **Income / (loss) before tax** | **669** | **658** | **215** | **139** | **(223)** | **1** | **1,458** | **(10)** | **1,448** |
| Income tax (expense) / benefit | (79) | (166) | (37) | (50) | 60 | - | (272) | 10 | (262) |
| **Net income / (loss)** | **590** | **491** | **178** | **89** | **(164)** | **1** | **1,186** | **-** | **1,186** |
| *Inter-segment underlying earnings* | (173) | (58) | (59) | 272 | 18 | | | | |
| **Revenues** | | | | | | | | | |
| **2014** | | | | | | | | | |
| 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 |
| **Total gross premiums** | **8,334** | **4,716** | **4,916** | **2,402** | **6** | **(76)** | **20,298** | **(433)** | **19,864** |
| 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 |
| **Total revenues** | **13,134** | **7,608** | **7,032** | **3,262** | **336** | **(637)** | **30,735** | **(578)** | **30,157** |
| *Inter-segment revenues* | 16 | - | - | 292 | 327 | | | | |

The following table presents Aegon's 2014 segment results after adoption of the refinements of its segment reporting:

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 1,134 | 558 | 125 | 60 | 28 | ***771*** | (17) | 115 | (139) | 1 | **1,865** | (9) | **1,856** |
| Fair value items | (497) | (207) | (31) | 8 | - | *(231)* | 3 | - | (82) | - | (807) | 2 | (806) |
| Realized gains / (losses) on investments | 85 | 431 | 164 | 9 | 2 | *606* | 5 | 1 | - | - | 697 | (3) | 694 |
| Impairment charges | (38) | (19) | - | (42) | - | *(61)* | (1) | - | - | - | (100) | (23) | (123) |
| Impairment reversals | 58 | 7 | - | - | - | *7* | - | - | - | - | 66 | - | 66 |
| Other income / (charges) | (52) | (113) | (49) | (26) | (1) | *(189)* | 4 | (1) | (3) | - | (240) | 22 | (218) |
| Run-off businesses | (21) | - | - | - | - | - | - | - | - | - | (21) | - | (21) |
| **Income / (loss) before tax** | **669** | **658** | **209** | **9** | **28** | ***904*** | **(7)** | **115** | **(223)** | **1** | **1,458** | **(10)** | **1,448** |
| Income tax (expense) / benefit | (79) | (166) | (36) | - | (7) | *(208)* | (9) | (36) | 60 | - | (272) | 10 | (262) |
| **Net income / (loss)** | **590** | **491** | **174** | **9** | **22** | ***696*** | **(16)** | **79** | **(164)** | **1** | **1,186** | **-** | **1,186** |
| *Inter-segment underlying earnings* | (173) | (58) | (55) | (17) | - | *(129)* | 55 | 229 | 18 | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2014** | | | | | | | | | | | | | |
| Life insurance gross premiums | 6,461 | 3,982 | 5,056 | 524 | 196 | *9,759* | 1,097 | - | - | (70) | 17,246 | (351) | 16,896 |
| Accident and health insurance | 1,874 | 233 | 56 | 1 | 60 | *351* | 102 | - | 6 | (6) | 2,326 | (11) | 2,316 |
| General insurance | - | 501 | - | 152 | 72 | *725* | - | - | - | - | 725 | (72) | 653 |
| **Total gross premiums** | **8,334** | **4,716** | **5,113** | **678** | **328** | ***10,835*** | **1,199** | **-** | **6** | **(76)** | **20,298** | **(433)** | **19,864** |
| Investment income | 3,312 | 2,568 | 2,077 | 54 | 49 | *4,748* | 124 | 4 | 332 | (329) | 8,191 | (42) | 8,148 |
| Fee and commission income | 1,485 | 324 | 94 | 41 | 8 | *467* | 53 | 475 | - | (243) | 2,237 | (100) | 2,137 |
| Other revenues | 2 | - | - | - | 2 | *2* | - | - | 5 | - | 10 | (3) | 7 |
| **Total revenues** | **13,134** | **7,608** | **7,284** | **773** | **387** | ***16,052*** | **1,376** | **479** | **342** | **(648)** | **30,735** | **(578)** | **30,157** |
| *Inter-segment revenues* | 16 | - | - | - | - | - | 70 | 228 | 333 | | | | |

### 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:

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | - | - | (150) | - | - | ***(150)*** | - | - | - | - | **(150)** | - | **(150)** |
| Fair value items | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Realized gains / (losses) on investments | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairment charges | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairment reversals | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income / (charges) | - | - | (1,274) | - | - | *(1,274)* | - | - | - | - | (1,274) | - | (1,274) |
| Run-off businesses | 36 | - | - | - | - | - | - | - | - | - | 36 | - | 36 |
| **Income / (loss) before tax** | **36** | **-** | **(1,423)** | **-** | **-** | ***(1,423)*** | **-** | **-** | **-** | **-** | **(1,388)** | **-** | **(1,388)** |
| Income tax (expense) / benefit | (25) | - | 270 | - | - | *270* | - | - | - | - | 245 | - | 245 |
| **Net income / (loss)** | **11** | **-** | **(1,153)** | **-** | **-** | ***(1,153)*** | **-** | **-** | **-** | **-** | **(1,143)** | **-** | **(1,143)** |
| *Inter-segment underlying earnings* | - | - | - | - | - | - | - | - | - | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2015** | | | | | | | | | | | | | |
| Life insurance gross premiums | - | - | 2,614 | - | - | *2,614* | - | - | - | - | 2,614 | - | 2,614 |
| Accident and health insurance | - | - | - | - | - | - | - | - | - | - | - | - | - |
| General insurance | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total gross premiums** | **-** | **-** | **2,614** | **-** | **-** | ***2,614*** | **-** | **-** | **-** | **-** | **2,614** | **-** | **2,614** |
| Investment income | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Fee and commission income | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other revenues | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total revenues** | **-** | **-** | **2,614** | **-** | **-** | ***2,614*** | **-** | **-** | **-** | **-** | **2,614** | **-** | **2,614** |
| *Inter-segment revenues* | - | - | - | - | - | - | - | - | - | | | | |

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Fair value items | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Realized gains / (losses) on investments | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairment charges | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairment reversals | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income / (charges) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Run-off businesses | 27 | - | - | - | - | - | - | - | - | - | 27 | - | 27 |
| **Income / (loss) before tax** | **27** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **27** | **-** | **27** |
| Income tax (expense) / benefit | (18) | - | - | - | - | - | - | - | - | - | (18) | - | (18) |
| **Net income / (loss)** | **9** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **9** | **-** | **9** |
| *Inter-segment underlying earnings* | - | - | - | - | - | - | - | - | - | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2014** | | | | | | | | | | | | | |
| 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* | - | - | - | - | - | - | - | - | - | | | | |

### 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:

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 77 | - | - | - | - | - | - | - | - | - | **77** | - | **77** |
| Fair value items | (103) | (49) | - | - | - | *(49)* | - | - | - | - | (151) | - | (151) |
| Realized gains / (losses) on investments | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairment charges | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairment reversals | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income / (charges) | 25 | 49 | - | - | - | *49* | - | - | - | - | 74 | - | 74 |
| Run-off businesses | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Income / (loss) before tax** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 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* | - | - | - | - | - | - | - | - | - | | | | |

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 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 |
| **Income / (loss) before tax** | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Income tax (expense) / benefit | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net income / (loss)** | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Inter-segment underlying earnings* | - | - | - | - | - | - | - | - | - | | - | | |
| **Revenues** | | | | | | | | | | | | | |
| **2014** | | | | | | | | | | | | | |
| 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* | - | - | - | - | - | - | - | - | - | | | | |

## 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.

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 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.

### 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 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.

Aegon applies fair value hedge accounting to portfolio hedges of interest rate risk (fair value macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve out' macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting. Under the EU 'carve out', ineffectiveness in fair value hedge accounting only arises when the revised projection of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' to mortgage loans. Changes in the fair value of the derivatives are recognized in the profit and loss account, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

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.

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.

### 2.13 Deferred expenses

#### a. Deferred policy acquisition costs (DPAC)

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.

### 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.

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.

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-EU 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-EU 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-EU, Aegon has

considered new and amended standards in those GAAPs which have become effective subsequent to the date of transition to IFRS-EU. 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-EU and with consideration of standards effective subsequent to the date of transition to IFRS-EU, 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.

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.

## d. Shadow accounting

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.

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.

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).

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.

### 2.24 Tax assets and liabilities

#### a. Current tax assets and liabilities

Tax assets and liabilities for current and prior periods are measured at the amount that is expected to be received from or paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the reporting date.

#### b. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognized for tax loss carryforwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are reviewed at 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.

### 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.

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. 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 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).

## 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.

## 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-EU 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-EU net income and shareholders' equity. Aegon has classified a significant part of its investment portfolio as 'available-for-sale', which is one of the main reasons why the economic shocks tested have a different impact on net income than on shareholders' equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked directly to the revaluation reserves in shareholders' equity, unless impaired. As a result, economic sensitivities predominantly impact shareholders' equity but leave net income unaffected. The effect of movements of the revaluation reserve on capitalization ratios and capital adequacy are minimal. Aegon's target ratio for the composition of its capital base is based on shareholders' equity excluding the revaluation reserve.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon's future shareholders' equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon's future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

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.

Information on Aegon's three year historical net income/(loss) and shareholders' equity in functional currency are shown in the table below:

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| **Net income** | | | |
| Americas (in USD) | 618 | (261) | 796 |
| The Netherlands (in EUR) | 566 | 661 | 491 |
| 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 |
| **Equity in functional currency** | | | |
| Americas (in USD) | 17,103 | 17,609 | 21,254 |
| The Netherlands (in EUR) | 5,494 | 5,507 | 5,081 |
| 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:

| **Closing rates** | **2016** | 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

| **Movement of markets** [1] | Estimated approximate effects on net income [2] | Estimated approximate effects on shareholders' equity |
|---|---|---|
| **2016** | | |
| 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) |

[1] The effect of currency exchange movements is reflected as a one-time shift up or down in the value of the non-euro currencies relative to the euro on December 31.
[2] 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.

### Interest rate risk

Aegon bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the liabilities can offset this risk. For some Aegon country units, local capital markets are not well developed, which prevents the complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

During periods of sustained low interest rates, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided on policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. 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.

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.

| **Parallel movement of yield curve** | Estimated approximate effects on net income | Estimated approximate effects on shareholders' equity |
|---|---|---|
| **2016** | | |
| Shift up 100 basis points | (165) | (3,029) |
| Shift down 100 basis points | (18) | 2,058 |
| **2015** | | |
| Shift up 100 basis points | (38) | (4,856) |
| Shift down 100 basis points | (52) | 2,987 |

The estimated approximate effect on shareholders' equity at December 31, 2016 was EUR 1.8 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.

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.

| 2016 | **Maximum exposure to credit risk** | Cash | Secu-rities | Letters of credit / guarantees | Real estate property | Master netting agree-ments | Other | **Total collateral** | Surplus collateral (or over-collater-alization) | **Net exposure** |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 34,206 | 2,319 | - | 760 | 49,448 | - | - | 52,527 | 19,198 | 876 |
| 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 |
| **At December 31** | **172,622** | **3,992** | **6,287** | **1,322** | **49,448** | **5,841** | **2,197** | **69,087** | **20,598** | **124,133** |

| 2015 | Maximum exposure to credit risk | Cash | Securities | Letters of credit / guarantees | Real estate property | Master netting agreements | Other | Total collateral | Surplus collateral (or overcollateralization) | Net exposure |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 33,214 | 2,070 | - | 1,387 | 45,244 | - | 1 | 48,702 | 15,644 | 156 |
| 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 |
| **At December 31** | **179,178** | **3,580** | **7,025** | **2,035** | **45,244** | **7,972** | **2,193** | **68,049** | **17,079** | **128,208** |

### Debt securities

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.

### 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 1st 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 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**<br>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 |

### Credit rating

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.

| **Credit rating general account investments, excluding reinsurance assets 2016** | Americas | | The Netherlands | | United Kingdom | | Central & Eastern Europe | | Spain & Portugal | | *Europe* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized cost | Fair value | 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 | *1,628* | *13,204* |
| AA | 3,214 | 6,102 | 86 | 6,011 | - | 1,158 | - | 1 | - | 58 | *86* | *7,228* |
| A | 3,281 | 25,147 | 12 | 3,397 | - | 549 | 8 | 116 | 48 | 157 | *68* | *4,219* |
| BBB | 481 | 21,461 | 850 | 2,402 | - | 85 | 20 | 433 | (6) | 436 | *865* | *3,356* |
| BB | 70 | 1,964 | 18 | 107 | - | 90 | 56 | 80 | - | 18 | *74* | *295* |
| B | - | 1,207 | - | 10 | - | 2 | 4 | 1 | - | 3 | *4* | *16* |
| CCC or lower | - | 1,049 | - | - | - | - | - | - | - | - | - | - |
| Assets not rated | 2,196 | 3,847 | 25,643 | 4,792 | - | 215 | 111 | 44 | 3 | 3 | *25,756* | *5,054* |
| **Total** | **10,802** | **82,357** | **28,237** | **29,740** | **-** | **2,269** | **201** | **676** | **45** | **687** | ***28,483*** | ***33,371*** |
| Past due and / or impaired assets | 17 | 1,397 | 390 | 77 | - | - | 102 | 2 | - | - | *492* | *79* |
| **At December 31** | **10,820** | **83,755** | **28,627** | **29,817** | **-** | **2,269** | **303** | **678** | **45** | **687** | ***28,975*** | ***33,450*** |

| **Credit rating general account investments, excluding reinsurance assets 2016** | Asia | | Asset Management | | Total 2016 [1] | | |
|---|---|---|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value | **Amortized cost** | **Fair value** | **Total carrying 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 |
| 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 | 27,970 | 9,267 | 37,237 |
| **Total** | **18** | **5,297** | **-** | **90** | **39,303** | **121,429** | **160,732** |
| Past due and / or impaired assets | - | 13 | - | - | 510 | 1,489 | 1,999 |
| **At December 31** | **18** | **5,310** | **-** | **90** | **39,812** | **122,918** | **162,731** |

[1] Includes investments of Holding and other activities.

| Credit rating general account investments, excluding reinsurance assets 2015 | Americas | | The Netherlands | | United Kingdom | | Central & Eastern Europe | | Spain & Portugal | | *Europe* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value | Amortized cost | Fair value | Amortized cost | Fair value | Amortized cost | Fair value | *Amortized cost* | *Fair value* |
| AAA | 1,528 | 18,643 | 1,489 | 13,361 | - | 736 | - | 3 | - | 12 | *1,489* | *14,112* |
| AA | 3,239 | 5,249 | 96 | 4,420 | - | 6,172 | - | 10 | - | 54 | *96* | *10,656* |
| A | 2,813 | 24,525 | 202 | 2,054 | - | 3,654 | 31 | 73 | 59 | 163 | *292* | *5,944* |
| BBB | 212 | 21,179 | 459 | 3,309 | - | 2,588 | 54 | 109 | 1 | 382 | *514* | *6,388* |
| BB | 52 | 2,063 | 12 | 201 | - | 187 | 11 | 333 | - | 27 | *23* | *748* |
| B | - | 1,198 | - | 26 | - | 2 | 5 | - | - | - | *5* | *28* |
| CCC or lower | - | 969 | - | - | - | - | 4 | 8 | - | - | *4* | *8* |
| Assets not rated | 2,195 | 4,203 | 25,229 | 7,849 | - | 628 | 80 | 33 | 3 | 2 | *25,312* | *8,512* |
| **Total** | **10,038** | **78,029** | **27,487** | **31,220** | **-** | **13,968** | **186** | **568** | **62** | **639** | ***27,735*** | ***46,395*** |
| Past due and / or impaired assets | 23 | 1,479 | 520 | 119 | - | 1 | 154 | 2 | - | - | *674* | *122* |
| **At December 31** | **10,062** | **79,508** | **28,007** | **31,339** | **-** | **13,969** | **340** | **570** | **62** | **639** | ***28,409*** | ***46,517*** |

| Credit rating general account investments, excluding reinsurance assets 2015 | Asia | | Asset Management | | Total 2015 [1] | | |
|---|---|---|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value | Amortized cost | Fair value | Total carrying value |
| AAA | - | 782 | - | - | 3,017 | 33,556 | 36,573 |
| AA | - | 332 | - | - | 3,335 | 16,236 | 19,571 |
| A | - | 1,415 | - | - | 3,105 | 31,901 | 35,006 |
| BBB | - | 1,661 | - | - | 725 | 29,229 | 29,954 |
| BB | - | 76 | - | - | 75 | 2,887 | 2,962 |
| B | - | 56 | - | - | 5 | 1,281 | 1,286 |
| CCC or lower | - | 15 | - | - | 4 | 991 | 995 |
| Assets not rated | 19 | - | - | 74 | 27,613 | 13,133 | 40,746 |
| **Total** | **19** | **4,337** | **-** | **74** | **37,879** | **129,214** | **167,093** |
| Past due and / or impaired assets | - | 54 | - | - | 697 | 1,655 | 2,352 |
| **At December 31** | **19** | **4,391** | **-** | **74** | **38,576** | **130,869** | **169,445** |

[1] 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:

| | **Carrying value 2016** | Carrying value 2015 |
|---|---|---|
| AAA | 7 | 7 |
| AA | 7,724 | 8,033 |
| A | 3,120 | 2,771 |
| Below A | 18 | 14 |
| Not rated | 338 | 368 |
| **At December 31** | **11,206** | **11,193** |

## Credit risk concentration

The tables that follow present specific credit risk concentration information for general account financial assets.

| **Credit risk concentrations – debt securities and money market investments 2016** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2016** [1] | Of which past due and / or impaired assets |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential mortgage-backed securities (RMBSs) | 3,583 | 649 | 19 | - | - | *668* | 80 | - | 4,331 | 1,267 |
| Commercial mortgage-backed securities (CMBSs) | 5,340 | 44 | 195 | - | - | *239* | 576 | - | 6,155 | 8 |
| Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans | 1,066 | 2,437 | - | - | - | *2,437* | 29 | - | 3,532 | 7 |
| ABSs – Other | 2,324 | 276 | 97 | - | 1 | *375* | 373 | - | 3,072 | 36 |
| Financial - Banking | 8,457 | 1,194 | 157 | 67 | 110 | *1,528* | 800 | - | 10,785 | 4 |
| Financial - Other | 10,487 | 282 | 118 | 6 | 120 | *526* | 465 | 87 | 11,588 | - |
| Industrial | 29,364 | 2,824 | 332 | 7 | 126 | *3,289* | 2,367 | - | 35,020 | 65 |
| Utility | 4,704 | 392 | 67 | 3 | 43 | *505* | 280 | - | 5,490 | 7 |
| Government bonds | 12,406 | 15,642 | 1,068 | 553 | 282 | *17,545* | 339 | - | 30,289 | 4 |
| **At December 31** | **77,730** | **23,741** | **2,054** | **636** | **683** | ***27,113*** | **5,310** | **87** | **110,262** | **1,399** |

[1] Includes investments of Holding and other activities.

| **Credit risk concentrations – Government bonds per country of risk 2016** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2016** [1] |
|---|---|---|---|---|---|---|---|---|---|
| United States | 11,738 | 22 | - | - | - | *22* | 300 | - | 12,060 |
| Netherlands | - | 5,374 | - | - | 4 | *5,378* | - | - | 5,378 |
| United Kingdom | - | - | 948 | 2 | - | *949* | - | - | 949 |
| Austria | - | 1,171 | - | - | 4 | *1,175* | - | - | 1,175 |
| Belgium | - | 1,119 | 25 | - | 7 | *1,151* | - | - | 1,151 |
| Finland | - | 935 | - | - | - | *935* | - | - | 935 |
| France | - | 1,356 | 36 | - | 5 | *1,397* | - | - | 1,397 |
| Germany | - | 4,138 | 29 | - | - | *4,167* | - | - | 4,167 |
| Hungary | 4 | - | - | 360 | - | *360* | - | - | 364 |
| Luxembourg | - | 872 | - | - | 4 | *876* | - | - | 876 |
| Spain | - | 112 | - | 2 | 221 | *335* | - | - | 335 |
| Rest of Europe | 118 | 484 | - | 189 | 18 | *690* | - | - | 808 |
| Rest of world | 506 | 59 | 30 | - | 20 | *109* | 39 | - | 654 |
| Supranational | 40 | | - | - | - | - | - | - | 40 |
| **At December 31** | **12,406** | **15,642** | **1,068** | **553** | **282** | ***17,545*** | **339** | **-** | **30,289** |

[1] Includes investments of Holding and other activities.

| **Credit risk concentrations – Credit rating 2016** [2] | Government bonds | Corporate bonds | RMBSs CMBSs ABSs | Other | **Total 2016** [1] |
|---|---|---|---|---|---|
| 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 |
| **At December 31** | **30,289** | **60,055** | **17,090** | **2,827** | **110,262** |

[1] Includes investments of Holding and other activities.
[2] CNLP Ratings are used and are the lower of the Barclay's Rating and the Internal Rating with the Barclay's rating being a blended rating of S&P, Fitch, and Moody's.

| **Credit risk concentrations – debt securities and money market investments 2015** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2015** [1] | Of which past due and / or impaired assets |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential mortgage-backed securities (RMBSs) | 4,326 | 757 | 21 | - | - | *778* | 62 | - | 5,167 | 1,355 |
| Commercial mortgage-backed securities (CMBSs) | 4,970 | 78 | 590 | - | - | *668* | 516 | - | 6,153 | 16 |
| Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans | 959 | 2,055 | - | - | - | *2,055* | 28 | - | 3,041 | 7 |
| ABSs – Other | 2,231 | 342 | 2,018 | - | 2 | *2,362* | 280 | - | 4,873 | 60 |
| Financial - Banking | 7,617 | 1,578 | 1,321 | 53 | 101 | *3,053* | 715 | - | 11,385 | 4 |
| Financial - Other | 10,787 | 222 | 920 | 13 | 115 | *1,270* | 431 | 65 | 12,570 | 1 |
| Industrial | 27,349 | 2,778 | 2,315 | 9 | 106 | *5,208* | 1,880 | - | 34,437 | 31 |
| Utility | 4,450 | 546 | 977 | 3 | 43 | *1,569* | 204 | - | 6,223 | - |
| Government bonds | 9,794 | 15,015 | 5,178 | 450 | 271 | *20,914* | 275 | - | 30,984 | 46 |
| **At December 31** | **72,484** | **23,370** | **13,341** | **528** | **638** | ***37,877*** | **4,391** | **65** | **114,834** | **1,521** |

[1] Includes investments of Holding and other activities.

| **Credit risk concentrations – Government bonds per country of risk 2015** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2015** [1] |
|---|---|---|---|---|---|---|---|---|---|
| United States | 9,057 | 23 | - | - | - | *23* | 251 | - | 9,331 |
| Netherlands | - | 5,068 | 4 | - | 4 | *5,075* | - | - | 5,075 |
| United Kingdom | - | - | 4,542 | 2 | - | *4,543* | - | - | 4,543 |
| Austria | - | 1,219 | - | - | 4 | *1,223* | - | - | 1,223 |
| Belgium | - | 1,043 | 135 | - | 8 | *1,186* | - | - | 1,186 |
| Finland | - | 894 | - | - | - | *894* | - | - | 894 |
| France | - | 1,331 | 125 | - | 5 | *1,460* | - | - | 1,460 |
| Germany | - | 3,966 | 57 | - | - | *4,023* | - | - | 4,023 |
| Hungary | 5 | - | - | 310 | - | *310* | - | - | 315 |
| Luxembourg | - | 777 | 133 | 1 | 4 | *915* | - | - | 915 |
| Spain | - | 109 | - | 1 | 222 | *332* | - | - | 332 |
| Rest of Europe | 127 | 518 | - | 136 | 19 | *674* | - | - | 801 |
| Rest of world | 560 | 68 | 182 | - | 6 | *256* | 25 | - | 841 |
| Supranational | 45 | - | - | - | - | - | - | - | 45 |
| **At December 31** | **9,794** | **15,015** | **5,178** | **450** | **271** | ***20,914*** | **275** | **-** | **30,984** |

[1] Includes investments of Holding and other activities.

| **Credit risk concentrations – Credit rating 2015** [2] | Government bonds | Corporate bonds | RMBSs CMBSs ABSs | Other | Total 2015 [1] |
|---|---|---|---|---|---|
| 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 |
| **At December 31** | **30,984** | **62,323** | **19,234** | **2,292** | **114,834** |

[1] Includes investments of Holding and other activities.
[2] CNLP Ratings are used and are the lower of the Barclay's Rating and the Internal Rating with the Barclay's rating being a blended rating of S&P, Fitch, and Moody's.

| Credit risk concentrations – mortgage loans | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2016** [1] | Of which past due and / or impaired assets |
|---|---|---|---|---|---|---|---|---|---|---|
| Agricultural | 101 | - | - | - | - | - | - | - | 101 | 11 |
| Apartment | 3,525 | - | - | - | - | - | - | - | 3,525 | - |
| Industrial | 838 | - | - | - | - | - | - | - | 838 | - |
| Office | 1,869 | 1 | - | - | - | *1* | - | - | 1,869 | 1 |
| Retail | 1,889 | 12 | - | - | - | *12* | - | - | 1,901 | 5 |
| Other commercial | 397 | 41 | - | - | - | *41* | - | - | 438 | - |
| Residential | 23 | 25,303 | - | 207 | 1 | *25,511* | - | - | 25,533 | 448 |
| **At December 31** | **8,641** | **25,357** | **-** | **207** | **1** | ***25,565*** | **-** | **-** | **34,206** | **464** |

[1] Includes investments of Holding and other activities.

| Credit risk concentrations – mortgage loans | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2015** [1] | Of which past due and / or impaired assets |
|---|---|---|---|---|---|---|---|---|---|---|
| Agricultural | 101 | - | - | - | - | - | - | - | 101 | 10 |
| Apartment | 2,796 | - | - | - | - | - | - | - | 2,796 | - |
| Industrial | 837 | - | - | - | - | - | - | - | 837 | - |
| Office | 1,880 | 12 | - | - | - | *12* | - | - | 1,892 | 6 |
| Retail | 1,896 | 13 | - | - | - | *13* | - | - | 1,909 | 9 |
| Other commercial | 351 | 35 | - | - | - | *35* | - | - | 386 | 2 |
| Residential | 26 | 25,034 | - | 231 | 2 | *25,267* | - | - | 25,292 | 625 |
| **At December 31** | **7,888** | **25,094** | **-** | **231** | **2** | ***25,327*** | **-** | **-** | **33,214** | **653** |

[1] 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.

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 |
|---|---|---|---|---|
| **2016** | Interest income | Total gains and losses on sale of assets | **Total** | Investments |
| 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 |
| **Total** | **555** | **107** | **662** | **17,090** |

| | | | Total income, 2015 | December 31, 2015 |
|---|---|---|---|---|
| **2015** | Interest income | Total gains and losses on sale of assets | Total | Investments |
| 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 |
| **Total** | **626** | **278** | **905** | **19,234** |

### 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:

| 2016 | Amortized cost | Unrealized gains | Unrealized losses | **Total fair value** | Fair value of instruments with unrealized gains | Fair value of instruments with unrealized losses |
|---|---|---|---|---|---|---|
| **Debt securities, money market instruments and other** | | | | | | |
| 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 |
| **Total** | **102,298** | **8,035** | **(1,297)** | **109,036** | **85,599** | **23,436** |
| Of which held by Aegon Americas, NL and UK | 95,806 | 7,739 | (1,217) | 102,329 | 81,335 | 20,993 |

| 2015 | Amortized cost | Unrealized gains | Unrealized losses | Total fair value | Fair value of instruments with unrealized gains | Fair value of instruments with unrealized losses |
|---|---|---|---|---|---|---|
| **Debt securities, money market instruments and other** | | | | | | |
| 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 |
| **Total** | **106,173** | **9,268** | **(1,852)** | **113,589** | **86,932** | **26,657** |
| Of which held by Aegon Americas, NL and UK | 100,715 | 9,029 | (1,766) | 107,979 | 83,616 | 24,363 |

### Unrealized bond losses by sector

The composition by industry category of Aegon's 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:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| **Unrealized losses - debt securities, money market investments and other** | **Carrying value of instruments with unrealized losses** | **Unrealized losses** | Carrying value of instruments with unrealized losses | Unrealized losses |
| 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) |
| 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) |
| **Total held by Aegon Americas, NL and UK** | **20,993** | **(1,217)** | **24,363** | **(1,766)** |
| Held by other segments | 2,443 | (80) | 2,294 | (86) |
| **Total** | **23,436** | **(1,297)** | **26,657** | **(1,852)** |

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 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 Quantitive 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.

| **AFS RMBS by quality** | AAA | AA | A | BBB | <BBB | **Total amortized cost** | **Total fair value** |
|---|---|---|---|---|---|---|---|
| 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 |
| **At December 31, 2016** | **771** | **589** | **98** | **65** | **1,771** | **3,295** | **3,494** |
| Of which insured | - | - | 43 | 8 | 203 | 254 | 237 |

| **AFS RMBS by quality** | AAA | AA | A | BBB | <BBB | Total amortized cost | Total fair value |
|---|---|---|---|---|---|---|---|
| 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 |
| **At December 31, 2015** | **1,472** | **44** | **151** | **301** | **2,121** | **4,090** | **4,232** |
| Of which insured | - | - | 66 | 10 | 268 | 343 | 333 |

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 Jumbo, Alt-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.

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's 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 |

### Commercial mortgage-backed securities

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's 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.

| **CMBS by quality** | AAA | AA | A | BBB | <BBB | **Total amortized cost** | **Total fair value** |
|---|---|---|---|---|---|---|---|
| CMBS | 4,295 | 688 | 141 | 73 | 105 | 5,301 | 5,337 |
| CMBS and CRE CDOs | - | - | - | - | 5 | 5 | 3 |
| **At December 31, 2016** | **4,295** | **688** | **141** | **73** | **110** | **5,306** | **5,340** |

| **CMBS by quality** | AAA | AA | A | BBB | <BBB | Total amortized cost | Total fair value |
|---|---|---|---|---|---|---|---|
| CMBS | 3,879 | 705 | 87 | 119 | 117 | 4,908 | 4,969 |
| **At December 31, 2015** | **3,879** | **705** | **87** | **119** | **117** | **4,908** | **4,969** |

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.

The fair values of Aegon USA's 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:

| **ABS US, NL and UK** | AAA | AA | A | BBB | <BBB | **Total amortized cost** | **Total fair value** |
|---|---|---|---|---|---|---|---|
| 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 |
| **At December 31, 2016** | **3,495** | **992** | **1,153** | **296** | **220** | **6,156** | **6,188** |

| **ABS US, NL and UK** | AAA | AA | A | BBB | <BBB | Total amortized cost | Total fair value |
|---|---|---|---|---|---|---|---|
| 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 |
| **At December 31, 2015** | **3,117** | **1,252** | **2,066** | **482** | **312** | **7,228** | **7,583** |

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 |

### Corporate - Financial sector

The Corporate – Financial sector is further subdivided into banking, brokerage, insurance, REIT's 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.

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.

| | **December 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| **Debt securities** | **Carrying value of securities with gross unrealized losses** | **Gross unrealized losses** | Carrying value of securities with gross unrealized losses | Gross unrealized losses |
| One year or less | 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) |
| **Total** | **20,938** | **(1,176)** | **24,300** | **(1,710)** |

### Unrealized loss by credit quality

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.

| | **December 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| **Debt securities** | **Carrying value of securities with unrealized losses** | **Unrealized losses** | 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) |
| **Total** | **20,938** | **(1,176)** | **24,300** | **(1,710)** |

The table below provides the length of time an available-for-sale security has been below cost and the respective unrealized loss.

| | At December 31, 2016 | | | |
|---|---|---|---|---|
| **Debt securities** | **Investment grade carrying value of securities with unrealized losses** | **Below investment grade carrying value of securities with unrealized losses** | **Investment grade unrealized loss** | **Below investment grade unrealized loss** |
| 0 – 6 months | 14,848 | 587 | (635) | (30) |
| 6 – 12 months | 190 | 198 | (6) | (20) |
| > 12 months | 3,929 | 1,186 | (270) | (213) |
| **Total** | **18,966** | **1,971** | **(912)** | **(263)** |

| | At December 31, 2015 | | | |
|---|---|---|---|---|
| **Debt securities** | Investment grade carrying value of securities with unrealized losses | Below investment grade carrying value of securities with unrealized losses | Investment grade unrealized loss | Below investment grade unrealized loss |
| 0 – 6 months | 12,890 | 1,458 | (516) | (121) |
| 6 – 12 months | 4,334 | 357 | (267) | (80) |
| > 12 months | 4,045 | 1,216 | (416) | (311) |
| **Total** | **21,269** | **3,031** | **(1,198)** | **(512)** |

The unrealized loss improved during 2016 due to tightening credit spreads, offset slightly by rising interest rates.

### Aging and severity unrealized losses

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.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| **Aging and severity unrealized losses debt securities** | **Carrying value** | **Unrealized losses** | Carrying value | Unrealized losses |
| 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) |
| **0-6 months** | **587** | **(30)** | **1,458** | **(121)** |
| 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) |
| **6-12 months** | **198** | **(20)** | **357** | **(80)** |
| 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) |
| **12-24 months** | **478** | **(60)** | **415** | **(125)** |
| 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)** |
| **Total** | **1,971** | **(263)** | **3,031** | **(512)** |

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 realised 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 |
|---|---|---|
| **December 31, 2016** | | |
| Debt securities | 2,257 | (323) |
| **December 31, 2015** | | |
| 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 | | |
|---|---|---|---|
| | 0 -12 months | >12 months | Total |
| **December 31, 2016** | | | |
| Debt securities | (221) | (103) | (323) |
| **December 31, 2015** | | | |
| Debt securities | (154) | (53) | (207) |

### Impairment losses and recoveries

The composition of Aegon Americas, Aegon the Netherlands and Aegon UK's bond impairment losses and recoveries by issuer for the 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.

| | **2016** | 2015 |
|---|---|---|
| | **(Impairment) / recovery** | (Impairment) / recovery |
| **Impairments:** | | |
| Other (none individually greater than EUR 25 million) | (52) | (32) |
| **Subtotal** | **(52)** | **(32)** |
| **Recoveries:** | | |
| Total recoveries | 42 | 110 |
| **Sub-total** | **42** | **110** |
| **Net (impairments) and recoveries** | **(11)** | **77** |

### Net (impairments) and recoveries

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.

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Past due but not impaired assets** | 0-6 months | 6-12 months | > 1 year | **Total** | 0-6 months | 6-12 months | > 1 year | Total |
| Debt securities - carried at fair value | 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 |
| **At December 31** | **167** | **17** | **13** | **197** | **138** | **8** | **65** | **211** |

| **Impaired financial assets** | **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 |
| **At December 31** | **1,803** | **2,147** |

### Equity instruments classified as available-for-sale

Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined within Aegon as an unrealized loss position for more than six months or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, 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 | Gross unrealized gains | Carrying value of securities with gross unrealized losses | Gross unrealized losses |
|---|---|---|---|---|---|---|---|
| **December 31, 2016** | | | | | | | |
| Shares | 596 | 786 | 190 | 722 | 202 | 64 | (13) |
| **December 31, 2015** | | | | | | | |
| 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 | |
|---|---|---|---|---|
| **Unrealized losses on shares** | **Carrying value of instruments with unrealized losses** | **Unrealized losses** | Carrying value of instruments with unrealized losses | Unrealized losses |
| Financials | 54 | (12) | 47 | (13) |
| Other | 10 | - | - | - |
| **Total** | **64** | **(13)** | **47** | **(13)** |

### 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 | 0- 6 months |
|---|---|
| **2016** | |
| Shares | (1) |
| **2015** | |
| Shares | - |

## 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:

| **Equity, real estate and non-fixed income exposure** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | Holding and other activities | **Total 2016** |
|---|---|---|---|---|---|---|---|---|---|---|
| Equity funds | 154 | 494 | 27 | 37 | - | *557* | - | - | - | 711 |
| Common shares [1] | 410 | - | 58 | 5 | 4 | *67* | - | - | 41 | 518 |
| Preferred shares | 229 | - | - | - | - | - | - | - | - | 229 |
| Investments in real estate | 743 | 1,238 | - | 3 | 15 | *1,256* | - | - | - | 1,999 |
| Hedge funds | 1,165 | 1 | - | - | - | *1* | - | 2 | - | 1,168 |
| Other alternative investments | 1,207 | 156 | - | - | - | *156* | - | - | 21 | 1,385 |
| Other financial assets | 588 | 41 | 98 | 1 | - | *140* | - | 1 | - | 729 |
| **At December 31** | **4,496** | **1,930** | **182** | **45** | **19** | ***2,176*** | **-** | **4** | **62** | **6,739** |

[1] Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR nill million.

| **Equity, real estate and non-fixed income exposure** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | Holding and other activities | Total 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Equity funds | 152 | 470 | 31 | 24 | 1 | *526* | - | - | - | 679 |
| Common shares [1] | 303 | - | 475 | 14 | - | *489* | - | - | 114 | 907 |
| Preferred shares | 228 | - | - | 2 | - | *2* | - | - | - | 230 |
| Investments in real estate | 840 | 1,148 | - | 2 | - | *1,150* | - | - | - | 1,990 |
| Hedge funds | 1,581 | 1 | - | - | - | *1* | - | 2 | - | 1,585 |
| Other alternative investments | 1,385 | - | - | - | - | - | - | - | 10 | 1,395 |
| Other financial assets | 585 | - | 4 | 1 | - | *5* | - | 7 | - | 596 |
| **At December 31** | **5,074** | **1,619** | **509** | **44** | **2** | ***2,174*** | **-** | **9** | **124** | **7,382** |

[1] Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR nil million.

| **Market risk concentrations – shares** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | **Total 2016** [1] | **Of which impaired assets** |
|---|---|---|---|---|---|---|---|---|---|---|
| Communication | 43 | - | - | - | - | - | - | - | 43 | - |
| Consumer | 41 | - | - | - | - | - | - | - | 41 | - |
| Financials | 675 | 4 | 1 | - | 2 | *7* | - | - | 682 | 2 |
| Funds | - | 326 | 84 | 33 | 2 | *444* | - | - | 506 | 79 |
| Industries | 21 | - | - | - | - | - | - | - | 22 | - |
| Other | 12 | 4 | - | 2 | - | *5* | - | 2 | 20 | - |
| **At December 31** | **793** | **334** | **84** | **35** | **4** | ***457*** | **-** | **2** | **1,315** | **81** |

[1] Includes investments of Holding and other activities.

| **Market risk concentrations – shares** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | Total 2015 [1] | Of which impaired assets |
|---|---|---|---|---|---|---|---|---|---|---|
| Communication | 43 | - | - | - | - | - | - | - | 48 | - |
| Consumer | 25 | - | - | - | - | - | - | - | 43 | - |
| Financials | 557 | 4 | 190 | - | - | *194* | - | - | 775 | 6 |
| Funds | - | 129 | 316 | 36 | 1 | *482* | - | - | 547 | 121 |
| Industries | 12 | - | - | - | - | - | - | - | 16 | - |
| Other | 14 | 4 | - | 2 | - | *6* | - | 2 | 31 | 2 |
| **At December 31** | **652** | **136** | **506** | **38** | **2** | ***682*** | **-** | **2** | **1,460** | **128** |

[1] Includes investments of Holding and other activities.

The table that follows sets forth the closing levels of certain major indices at the end of the last five years.

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| S&P 500 | 2,239 | 2,044 | 2,059 | 1,848 | 1,426 |
| Nasdaq | 5,383 | 5,007 | 4,736 | 4,177 | 3,020 |
| FTSE 100 | 7,143 | 6,242 | 6,566 | 6,749 | 5,898 |
| AEX | 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 equity markets**<br>Immediate change of | Estimated approximate effects on net income | Estimated approximate effects on shareholders' equity |
|---|---|---|
| **2016** | | |
| Equity increase 10% | 158 | 291 |
| Equity decrease 10% | (227) | (360) |
| Equity increase 20% | 324 | 587 |
| Equity decrease 20% | (338) | (604) |
| **2015** | | |
| Equity increase 10% | 132 | 237 |
| Equity decrease 10% | 25 | (99) |
| Equity increase 20% | 279 | 504 |
| Equity decrease 20% | 104 | (132) |

## Liquidity risk

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 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)** | On demand | < 1 yr amount | 1 < 5 yrs amount | 5 < 10 yrs amount | > 10 yrs amount | Total amount |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Trust pass-through securities | - | 10 | 39 | 131 | 81 | 261 |
| Subordinated loans | - | 28 | 112 | 84 | 1,198 | 1,422 |
| Borrowings | - | 2,072 | 5,146 | 1,535 | 6,693 | 15,446 |
| Investment contracts [1)] | 12,695 | 1,110 | 2,040 | 1,093 | 1,985 | 18,923 |
| Investment contracts for account of policyholders [1)] | 35,239 | 2,885 | - | - | 466 | 38,591 |
| Other financial liabilities | 6,743 | 2,224 | 839 | 12 | 26 | 9,844 |
| **2015** | | | | | | |
| Trust pass-through securities | - | 9 | 38 | 47 | 169 | 263 |
| Subordinated loans | - | 28 | 112 | 112 | 1,183 | 1,435 |
| Borrowings | - | 2,665 | 7,117 | 430 | 3,833 | 14,045 |
| Investment contracts [1)] | 10,285 | 2,140 | 2,056 | 1,062 | 1,683 | 17,225 |
| Investment contracts for account of policyholders [1)] | 32,786 | 3,261 | - | - | 282 | 36,329 |
| Other financial liabilities | 7,291 | 2,757 | 871 | 12 | 29 | 10,962 |

[1] 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** [1] | On demand | < 1 yr amount | 1 < 5 yrs amount | 5 < 10 yrs amount | > 10 yrs amount | Total amount |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| 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 |
| **2015** | | | | | | |
| Insurance contracts | - | 5,130 | 21,353 | 22,153 | 131,584 | 180,220 |
| Insurance contracts for account of policyholders | - | 7,205 | 30,668 | 31,314 | 97,230 | 166,417 |
| Investment contracts | - | 3,213 | 6,570 | 4,381 | 5,776 | 19,941 |
| Investment contracts for account of policyholders | 255 | 11,489 | 28,422 | 26,050 | 64,509 | 130,725 |

[1] The liability amount in the consolidated financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 36 Insurance contracts and 37 Investments contracts.

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** [1] **(Contractual cash flows) 2016** | On demand | < 1 yr amount | 1 < 5 yrs amount | 5 < 10 yrs amount | > 10 yrs amount | **Total amount** |
|---|---|---|---|---|---|---|
| **Gross settled** | | | | | | |
| Cash inflows | - | 18,933 | 6,154 | 10,862 | 19,084 | 55,034 |
| Cash outflows | - | (19,794) | (6,435) | (9,807) | (18,227) | (54,263) |
| **Net settled** | | | | | | |
| 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** [1] **(Contractual cash flows) 2015** | On demand | < 1 yr amount | 1 < 5 yrs amount | 5 < 10 yrs amount | > 10 yrs amount | Total amount |
|---|---|---|---|---|---|---|
| **Gross settled** | | | | | | |
| Cash inflows | - | 15,428 | 10,166 | 16,984 | 32,890 | 75,468 |
| Cash outflows | - | (15,812) | (11,179) | (16,871) | (29,622) | (73,485) |
| **Net settled** | | | | | | |
| 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;
- Europe: which covers the following operating segments: 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.

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

### 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-EU or any other recognized set of accounting standards.

The reconciliation from underlying earnings before tax to income before tax, being the most comparable IFRS-EU 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-EU 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 VA Europe leading to a loss of DAC recoverability resulting in a EUR 31 million adverse impact. In the Netherlands, model and assumption updates in the guarantee provision resulted in a benefit of EUR 56 million.

During 2015, Aegon implemented actuarial assumption and model updates resulting in a net EUR 131 million charge (2014: EUR 352 million charge) to income before tax. Assumption updates resulted in a net EUR 74 million gain (2014: EUR 147 million charge) to income before tax. Model updates had an adverse impact on income before tax of EUR 205 million (2014: EUR 205 million).

## Fair value items

Fair value items include the over- or underperformance of investments and guarantees held at fair value for which the expected long-term return is included in underlying earnings before tax.

In addition, hedge ineffectiveness on hedge transactions, fair value changes on economic hedges without natural offset in earnings and for which no hedge accounting is applied and fair value movements on real estate are included under fair value items.

Certain assets held by Aegon are carried at fair value and managed on a total return basis, with no offsetting changes in the valuation of related liabilities. These include assets such as investments in hedge funds, private equities, real estate (limited partnerships), convertible bonds and structured products. Underlying earnings before tax exclude any over- or underperformance compared to management's long-term expected return on assets. Based on current holdings and asset returns, the long-term expected return on an annual basis is 8-10%, depending on asset class, including cash income and market value changes. The expected earnings from these asset classes are net of deferred policy acquisition costs (DPAC) where applicable.

In addition, certain products offered by Aegon Americas contain guarantees and are reported on a fair value basis and the total return annuities and guarantees on variable annuities. The earnings on these products are impacted by movements in equity markets and risk-free interest rates. Short-term developments in the financial markets may therefore cause volatility in earnings. Included in underlying earnings before tax is a long-term expected return on these products and excluded is any over- or underperformance compared to management's expected return.

The fair value movements of certain guarantees and the fair value change of derivatives that hedge certain risks on these guarantees of Aegon's businesses in the Netherlands, VA Europe (included in United Kingdom) and Japan are excluded from underlying earnings before tax, and the long-term expected return for these guarantees is set at zero. In addition, fair value items include market related results on our loyalty bonus reserves in the United Kingdom. The value of these reserves are directly related to policyholder investments which value is directly impacted by movements in equity and bond markets.

Holding and other activities include certain issued bonds that are held at fair value through profit or loss (FVTPL). The interest rate risk on these bonds is hedged using swaps. The fair value movement resulting from changes in Aegon's credit spread used in the valuation of these bonds are excluded from underlying earnings before tax and reported under fair value items.

### Realized gains or losses on investments

Includes realized gains and losses on available-for-sale investments, mortgage loans and other loan portfolios.

### Impairment charges/reversals

Impairment charges include impairments on available-for-sale debt securities, shares including the effect of deferred policyholder acquisition costs, mortgage loans and other loan portfolios at amortized cost, joint ventures and associates. Impairment reversals include reversals on available-for-sale debt securities.

### Other income or charges

Other income or charges includes the following:

- items which cannot be directly allocated to a specific line of business;
- the impact of assumption and model updates used to support calculations of our liabilities for insurance and investment contracts sold to policyholders and related assets; and
- items that are outside the normal course of business, including restructuring charges.

In the Consolidated income statement, these restructuring charges are included in operating expenses. Actuarial assumption and model updates are recorded in 'Policyholder claims and benefits' in the Consolidated income statement.

### Run-off businesses

Includes underlying results of business units where management has decided to exit the market and to run -off the existing block of business. Currently, this line includes results related to the run-off of the institutional spread-based business, structured settlements blocks of business, bank-owned and corporate-owned life insurance (BOLI/COLI) business, and the sale of the life reinsurance business in the United States. Aegon has other blocks of business for which sales have been discontinued and of which the earnings are included in underlying earnings before tax.

### Share in earnings of joint ventures and associates

Earnings from Aegon's joint ventures in the Netherlands, Mexico, Spain, Portugal, China and Japan and Aegon's associates in India, Brazil, the Netherlands, United Kingdom, Mexico and France are reported on an underlying earnings before tax basis.

The following table presents Aegon's segment results after reflecting the voluntary changes in accounting policies (as presented in Note 2.1.2) that came into effect as of January 1, 2016 and the impact of the change in the measurement of actuarial and economic assumption updates implemented in 2016 as described in the paragraph 'Change in measurement of Performance measure' above.

| **Income statement – Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 1,249 | 534 | 59 | 55 | 8 | ***655*** | 21 | 149 | (162) | - | **1,913** | 48 | **1,960** |
| Fair value items | (521) | (33) | (7) | - | (1) | *(41)* | (9) | - | (74) | - | (645) | (72) | (717) |
| Realized gains / (losses) on investments | (13) | 189 | 153 | - | (1) | *342* | 8 | 3 | - | - | 340 | (6) | 334 |
| Impairment charges | (72) | (29) | - | 1 | - | *(27)* | (1) | (5) | (7) | 1 | (113) | - | (112) |
| Impairment reversals | 42 | 17 | - | - | - | *17* | - | - | - | (1) | 58 | - | 58 |
| Other income / (charges) | (100) | 44 | (678) | (23) | - | *(658)* | (5) | (2) | (6) | - | (771) | - | (771) |
| Run-off businesses | 54 | - | - | - | - | - | - | - | - | - | 54 | - | 54 |
| **Income / (loss) before tax** | **638** | **721** | **(474)** | **34** | **6** | ***288*** | **14** | **145** | **(249)** | **-** | **836** | **(31)** | **805** |
| Income tax (expense) / benefit | (80) | (155) | 18 | (15) | (8) | *(161)* | (27) | (48) | 65 | - | (250) | 31 | (219) |
| **Net income / (loss)** | **558** | **566** | **(456)** | **19** | **(2)** | ***127*** | **(13)** | **97** | **(183)** | **-** | **586** | **-** | **586** |
| *Inter-segment underlying earnings* | (194) | (95) | (87) | (14) | (1) | *(197)* | 74 | 234 | 84 | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2016** | | | | | | | | | | | | | |
| Life insurance gross premiums | 7,363 | 2,015 | 9,888 | 399 | 191 | *12,493* | 1,121 | - | 6 | (84) | 20,898 | (498) | 20,400 |
| Accident and health insurance | 2,204 | 210 | 36 | 1 | 73 | *320* | 104 | - | (4) | - | 2,624 | (15) | 2,609 |
| General insurance | - | 266 | - | 179 | 92 | *536* | - | - | 5 | (5) | 536 | (92) | 444 |
| **Total gross premiums** | **9,567** | **2,491** | **9,924** | **578** | **355** | ***13,348*** | **1,225** | **-** | **7** | **(89)** | **24,058** | **(606)** | **23,453** |
| Investment income | 3,717 | 2,135 | 1,661 | 45 | 45 | *3,886* | 232 | 3 | 406 | (403) | 7,841 | (54) | 7,788 |
| Fee and commission income | 1,651 | 350 | 95 | 36 | 14 | *495* | 61 | 632 | - | (242) | 2,596 | (188) | 2,408 |
| Other revenues | 4 | - | - | - | 2 | *2* | - | 1 | 3 | - | 11 | (4) | 7 |
| **Total revenues** | **14,940** | **4,976** | **11,680** | **659** | **416** | ***17,732*** | **1,517** | **636** | **416** | **(734)** | **34,507** | **(852)** | **33,655** |
| *Inter-segment revenues* | - | 3 | - | - | - | *3* | 79 | 243 | 409 | | | | |

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 1,278 | 537 | (27) | 37 | 12 | ***559*** | 20 | 170 | (163) | 2 | **1,867** | 34 | **1,901** |
| Fair value items | (691) | 7 | (25) | - | - | *(18)* | 7 | - | (68) | - | (771) | (59) | (830) |
| Realized gains / (losses) on investments | (74) | 306 | 103 | 2 | - | *411* | 7 | 3 | - | - | 346 | (8) | 338 |
| Impairment charges | (43) | (25) | - | (2) | - | *(27)* | - | - | - | - | (70) | (21) | (91) |
| Impairment reversals | 114 | 5 | - | - | - | *5* | - | - | - | - | 119 | - | 119 |
| Other income / (charges) | (913) | 27 | (1,247) | (2) | 17 | *(1,205)* | (61) | (1) | - | - | (2,180) | 21 | (2,159) |
| Run-off businesses | 88 | - | - | - | - | - | - | - | - | - | 88 | - | 88 |
| **Income / (loss) before tax** | **(241)** | **857** | **(1,196)** | **35** | **29** | ***(275)*** | **(27)** | **172** | **(230)** | **2** | **(601)** | **(33)** | **(634)** |
| Income tax (expense) / benefit | 6 | (196) | 268 | (11) | (7) | *54* | (3) | (50) | 71 | - | 78 | 33 | 111 |
| **Net income / (loss)** | **(235)** | **661** | **(928)** | **24** | **22** | ***(221)*** | **(30)** | **121** | **(159)** | **2** | **(523)** | **-** | **(523)** |
| *Inter-segment underlying earnings* | (220) | (55) | (63) | (14) | - | *(131)* | 77 | 264 | 10 | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2015** | | | | | | | | | | | | | |
| Life insurance gross premiums | 7,046 | 2,240 | 8,465 | 477 | 174 | *11,356* | 1,713 | - | 4 | (106) | 20,013 | (431) | 19,583 |
| Accident and health insurance | 2,266 | 234 | 47 | 1 | 64 | *345* | 105 | - | 6 | (6) | 2,717 | (14) | 2,703 |
| General insurance | - | 473 | - | 164 | 80 | *717* | - | - | 2 | - | 720 | (80) | 640 |
| **Total gross premiums** | **9,312** | **2,947** | **8,512** | **642** | **317** | ***12,419*** | **1,819** | **-** | **13** | **(112)** | **23,450** | **(524)** | **22,925** |
| Investment income | 3,680 | 2,277 | 2,331 | 45 | 41 | *4,693* | 194 | 7 | 392 | (391) | 8,576 | (51) | 8,525 |
| Fee and commission income | 1,704 | 351 | 98 | 39 | 13 | *501* | 62 | 650 | - | (284) | 2,633 | (195) | 2,438 |
| Other revenues | 9 | - | - | - | 2 | *2* | - | - | 7 | - | 19 | (5) | 14 |
| **Total revenues** | **14,705** | **5,575** | **10,941** | **726** | **373** | ***17,615*** | **2,076** | **657** | **412** | **(787)** | **34,677** | **(775)** | **33,902** |
| *Inter-segment revenues* | 24 | 2 | - | - | - | *2* | 101 | 261 | 399 | | | | |

| **Income statement - Underlying earnings** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Segment total** | Joint ventures and associates eliminations | **Consolidated** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | | | | |
| **Underlying earnings before tax** | 1,275 | 558 | 125 | 60 | 28 | ***771*** | (17) | 115 | (139) | 1 | **2,006** | (9) | **1,998** |
| Fair value items | (494) | (207) | (31) | 8 | - | *(231)* | 3 | - | (82) | - | (804) | 2 | (802) |
| Realized gains / (losses) on investments | 85 | 431 | 164 | 9 | 2 | *606* | 5 | 1 | - | - | 697 | (3) | 694 |
| Impairment charges | (38) | (19) | - | (42) | - | *(61)* | (1) | - | - | - | (100) | (23) | (123) |
| Impairment reversals | 58 | 7 | - | - | - | *7* | - | - | - | - | 66 | - | 66 |
| Other income / (charges) | (202) | (113) | (49) | (26) | (1) | *(189)* | 4 | (1) | (3) | - | (391) | 22 | (368) |
| Run-off businesses | 11 | - | - | - | - | - | - | - | - | - | 11 | - | 11 |
| **Income / (loss) before tax** | **696** | **658** | **209** | **9** | **28** | ***904*** | **(7)** | **115** | **(223)** | **1** | **1,485** | **(10)** | **1,475** |
| Income tax (expense) / benefit | (97) | (166) | (35) | - | (7) | *(208)* | (9) | (36) | 60 | - | (290) | 10 | (280) |
| **Net income / (loss)** | **599** | **491** | **173** | **9** | **22** | ***696*** | **(16)** | **79** | **(164)** | **1** | **1,195** | **-** | **1,195** |
| *Inter-segment underlying earnings* | (173) | (58) | (54) | (17) | - | *(129)* | 55 | 229 | 18 | | | | |
| **Revenues** | | | | | | | | | | | | | |
| **2014** | | | | | | | | | | | | | |
| Life insurance gross premiums | 6,461 | 3,982 | 5,057 | 524 | 196 | *9,759* | 1,097 | - | - | (70) | 17,246 | (351) | 16,896 |
| Accident and health insurance | 1,874 | 233 | 56 | 1 | 60 | *351* | 102 | - | 6 | (6) | 2,326 | (11) | 2,316 |
| General insurance | - | 501 | - | 152 | 72 | *725* | - | - | - | - | 725 | (72) | 653 |
| **Total gross premiums** | **8,334** | **4,716** | **5,113** | **678** | **328** | ***10,835*** | **1,199** | **-** | **6** | **(76)** | **20,298** | **(433)** | **19,864** |
| Investment income | 3,312 | 2,568 | 2,077 | 54 | 49 | *4,748* | 124 | 4 | 332 | (329) | 8,191 | (42) | 8,148 |
| Fee and commission income | 1,485 | 324 | 94 | 41 | 8 | *467* | 53 | 475 | - | (243) | 2,237 | (100) | 2,137 |
| Other revenues | 2 | - | - | - | 2 | *2* | - | - | 5 | - | 10 | (3) | 7 |
| **Total revenues** | **13,134** | **7,608** | **7,284** | **773** | **387** | ***16,052*** | **1,376** | **479** | **342** | **(648)** | **30,735** | **(578)** | **30,157** |
| *Inter-segment revenues* | 16 | - | - | - | - | - | 70 | 228 | 333 | | | | |

The Group uses underlying earnings before tax in its segment reporting as an important indicator of its financial performance. The reconciliation of this measure to the income before tax is shown below. Aegon believes that underlying earnings before tax, together with the other information included in this report, provides a meaningful measure for the investing public to evaluate Aegon's business relative to the businesses of its peers.

The reconciliation from underlying earnings before tax to income before tax, being the most comparable IFRS-EU measure, is presented in the table below. For those items that cannot be directly reconciled to the respective notes, the explanation is provided below the table.

| | Note | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Underlying earnings before tax** | | **1,913** | **1,867** | **2,006** |
| Elimination of share in earnings of joint ventures and associates | | 48 | 34 | (9) |
| Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives | **10** | (783) | (571) | (406) |
| Realized gains and losses on financial investments | **10** | 327 | 349 | 697 |
| Gains and (losses) on investments in real estate | **10** | 70 | 145 | (4) |
| Net fair value change of derivatives | **10** | (81) | (149) | (217) |
| Net foreign currency gains and (losses) | **10** | 30 | (5) | - |
| Realized gains and (losses) on repurchased debt | **10** | 1 | 2 | 3 |
| Other income | **11** | 66 | 83 | 61 |
| Change in valuation of liabilities for insurance contracts | **12** | (144) | (602) | (388) |
| Change in valuation of liabilities for investment contracts | **12** | (18) | - | - |
| Policyholder claims and benefits - Other | **12** | 45 | 17 | 42 |
| Commissions and expenses | **14** | 75 | 130 | (70) |
| Impairment (charges) reversals | **15** | (97) | (1,250) | (79) |
| Other charges | **17** | (700) | (774) | (172) |
| Run-off businesses | **5** | 54 | 88 | 11 |
| **Income / (loss) before tax** | | **805** | **(634)** | **1,475** |

- Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives is reported as part of the respective line in Note 10 and reflects the over- or underperformance of investments and guarantees held at fair value for which the expected long-term return is included in underlying earnings before tax.
- Net fair value change of derivatives is reported as part of the respective line in Note 10 and includes: 1) the over- or underperformance of derivatives of EUR 8 million gain (2015: EUR 4 million gain, 2014: EUR 19 million loss) for which the expected long-term return is included in underlying earnings before tax; 2) Net fair value change on economic hedges where no hedge accounting is applied of EUR 121 million loss (2015: EUR 139 million loss, 2014: EUR 241 million loss); 3) Ineffective portion of hedge transactions to which hedge accounting is applied of EUR 31 million gain (2015: EUR 14 million loss, 2014: EUR 43 million gain).
- Net foreign currency gains and (losses) are reported as part of the respective line in Note 10.
- Change in valuation of liabilities for insurance contracts is reported as part of the respective line in Note 12.
- Change in valuation of liabilities for investment contracts is reported as part of the respective line in Note 12.
- Policyholder claims and benefits - Other are reported as part of the 'Other' line in note 12 and is related to policyholder tax.
- Commissions and expenses include: 1) Restructuring charges of EUR 54 million (2015: EUR 59 million charge, 2014: EUR 134 million charge) which are reported as part of Employee and Administration expenses lines in Note 14; 2) Amortization of deferred expenses of EUR 137 million gain (2015: gain of EUR 126 million, 2014: charge of EUR 24 million) which is reported as part of the respective line in Note 14. This is offset against realized gains and losses and impairments on financial investments; 3) Amortization of VOBA and future servicing rights of EUR 8 million charge (2015: gain of EUR 63 million; 2014: gain of EUR 88 million) which is reported as part of the respective line in Note 14. Commissions and expenses include a DPAC/VOBA fair value adjustment of EUR 105 million (2015: EUR 41 million; 2014: EUR (17) million).
- Impairment (charges) reversals include: 1) Impairment charges and reversals on financial assets, excluding receivables of EUR 59 million charge (2015: EUR 24 million gain, 2014: EUR 66 million charge) as shown in Note 15; 2) Impairment charges and reversals on non-financial assets and receivables of EUR 38 million charge (2015: EUR 1,274 million charge; 2014: EUR 13 million charge) reported as part of the respective line in Note 15.
- There are no interest charges and related fees that are classified for segment reporting purposes as non-underlying earnings.

| **Other selected income statement items** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | |
| Amortization of deferred expenses, VOBA and future servicing rights | 761 | 32 | 177 | 59 | - | *269* | 32 | - | - | 2 | 1,065 |
| Depreciation | 38 | 17 | 21 | 9 | 3 | *49* | 1 | - | 2 | - | 89 |
| Impairment charges / (reversals) on financial assets, excluding receivables | 35 | 12 | - | (1) | - | *10* | 1 | 5 | 7 | - | 59 |
| Impairment charges / (reversals) on non- financial assets and receivables | 7 | (2) | 31 | (1) | - | *29* | - | - | - | - | 36 |
| **2015** | | | | | | | | | | | |
| Amortization of deferred expenses, VOBA and future servicing rights | 731 | 39 | 377 | 80 | - | *496* | 34 | - | - | - | 1,261 |
| Depreciation | 31 | 17 | 23 | 9 | 2 | *51* | 1 | - | - | - | 84 |
| Impairment charges / (reversals) on financial assets, excluding receivables | (68) | 20 | - | 2 | 21 | *44* | - | - | - | - | (24) |
| Impairment charges / (reversals) on non- financial assets and receivables | - | 2 | 1,274 | - | - | *1,275* | - | - | - | - | 1,275 |
| **2014** | | | | | | | | | | | |
| Amortization of deferred expenses, VOBA and future servicing rights | 545 | 53 | 224 | 78 | - | *355* | 10 | - | 1 | (3) | 909 |
| Depreciation | 28 | 21 | 18 | 9 | 2 | *49* | 1 | - | - | - | 78 |
| Impairment charges / (reversals) on financial assets, excluding receivables | (11) | 12 | - | 42 | 23 | *77* | - | - | - | - | 66 |
| Impairment charges / (reversals) on non- financial assets and receivables | - | 8 | 6 | 7 | - | *21* | - | - | - | - | 21 |

| **Number of employees** | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | |
| Number of employees - headcount | 11,943 | 4,464 | 2,673 | 2,317 | 600 | *10,054* | 5,579 | 1,474 | 330 | 29,380 |
| Of which Aegon's share of employees in joint ventures and associates | 561 | - | - | - | 41 | *41* | 5,186 | 156 | - | 5,944 |
| **2015** | | | | | | | | | | |
| Number of employees - headcount | 12,701 | 4,503 | 2,478 | 2,470 | 534 | *9,985* | 7,163 | 1,382 | 299 | 31,530 |
| Of which Aegon's share of employees in joint ventures and associates | 545 | - | - | - | 33 | *33* | 6,780 | 141 | - | 7,499 |
| **2014** | | | | | | | | | | |
| Number of employees - headcount | 12,865 | 4,426 | 2,644 | 2,495 | 433 | *9,998* | 4,189 | 1,276 | 274 | 28,602 |
| Of which Aegon's share of employees in joint ventures and associates | 568 | - | - | - | 25 | *25* | 3,750 | 86 | - | 4,429 |

| Summarized assets and liabilities per segment | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| Cash and Cash equivalents | 928 | 7,410 | 1,010 | 47 | 92 | *8,558* | 271 | 183 | 1,407 | - | 11,347 |
| Assets held for sale | - | - | 8,705 | - | - | *8,705* | - | - | - | - | 8,705 |
| Investments | 93,046 | 54,298 | 2,236 | 983 | 747 | *58,264* | 5,328 | 90 | 85 | - | 156,813 |
| Investments for account of policyholders | 107,341 | 27,985 | 66,786 | 1,418 | 88 | *96,276* | - | - | - | (7) | 203,610 |
| Investments in joint ventures | 7 | 877 | - | - | 495 | *1,373* | 134 | 99 | - | - | 1,614 |
| Investments in associates | 95 | 21 | 8 | 2 | - | *30* | 21 | 125 | (1) | - | 270 |
| Deferred expenses | 9,351 | 84 | 1,084 | 71 | 1 | *1,239* | 832 | - | - | - | 11,423 |
| Other assets | 20,725 | 7,766 | 1,920 | 174 | 77 | *9,923* | 2,018 | 109 | 29,700 | (30,338) | 32,152 |
| **Total assets** | **231,493** | **98,441** | **81,747** | **2,696** | **1,500** | ***184,370*** | **8,604** | **607** | **31,192** | **(30,345)** | **425,935** |
| **Liabilities** | | | | | | | | | | | |
| Insurance contracts | 75,942 | 34,900 | 1,747 | 558 | 722 | *37,926* | 7,466 | - | 20 | (1,785) | 119,569 |
| Insurance contracts for account of policyholders | 75,328 | 26,275 | 18,112 | 1,126 | 89 | *45,601* | - | - | - | - | 120,929 |
| Investment contracts | 10,148 | 9,043 | 355 | 24 | - | *9,422* | 2 | - | - | - | 19,572 |
| Investment contracts for account of policyholders | 32,013 | 3,160 | 49,309 | 292 | - | *52,761* | - | - | - | - | 84,774 |
| Liabilities held for sale | - | - | 8,816 | - | - | *8,816* | - | - | - | - | 8,816 |
| Other liabilities | 21,837 | 19,562 | 1,249 | 318 | 238 | *21,367* | (78) | 180 | 6,438 | (2,203) | 47,541 |
| **Total liabilities** | **215,268** | **92,940** | **79,586** | **2,318** | **1,049** | ***175,893*** | **7,390** | **180** | **6,458** | **(3,988)** | **401,201** |

| Summarized assets and liabilities per segment | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| Cash and Cash equivalents | 428 | 6,324 | 1,114 | 52 | 24 | *7,514* | 156 | 173 | 1,323 | - | 9,594 |
| Investments | 87,620 | 52,996 | 13,850 | 911 | 702 | *68,459* | 4,409 | 74 | 230 | - | 160,792 |
| Investments for account of policyholders | 101,164 | 26,756 | 70,760 | 1,468 | 87 | *99,070* | - | - | - | (8) | 200,226 |
| Investments in joint ventures | 7 | 837 | - | - | 505 | *1,341* | 101 | 109 | 3 | - | 1,561 |
| Investments in associates | 75 | 19 | 9 | - | - | *28* | 12 | 126 | - | - | 242 |
| Deferred expenses | 8,686 | 97 | 1,375 | 84 | 1 | *1,556* | 745 | - | 9 | - | 10,997 |
| Other assets | 18,282 | 10,928 | 2,715 | 186 | 99 | *13,914* | 2,169 | 131 | 29,688 | (31,881) | 32,317 |
| **Total assets** | **216,262** | **97,956** | **89,822** | **2,701** | **1,417** | ***191,882*** | **7,592** | **613** | **31,254** | **(31,889)** | **415,729** |
| **Liabilities** | | | | | | | | | | | |
| Insurance contracts | 73,637 | 32,709 | 11,159 | 495 | 718 | *45,081* | 6,310 | - | 91 | (2,077) | 123,042 |
| Insurance contracts for account of policyholders | 71,322 | 25,830 | 14,219 | 1,219 | 89 | *41,357* | - | - | - | - | 112,679 |
| Investment contracts | 9,911 | 7,340 | 457 | 8 | - | *7,805* | 2 | - | - | - | 17,718 |
| Investment contracts for account of policyholders | 29,842 | 2,424 | 57,598 | 255 | - | *60,277* | - | - | - | - | 90,119 |
| Other liabilities | 15,337 | 24,147 | 2,344 | 329 | 146 | *26,966* | 660 | 164 | 4,669 | (2,118) | 45,678 |
| **Total liabilities** | **200,048** | **92,450** | **85,778** | **2,305** | **953** | ***181,486*** | **6,972** | **164** | **4,761** | **(4,195)** | **389,236** |

| Investments | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | |
| Shares | 793 | 334 | 84 | 35 | 4 | *457* | - | 2 | 62 | - | 1,314 |
| Debt securities | 70,766 | 23,741 | 2,036 | 633 | 683 | *27,093* | 5,310 | - | - | - | 103,169 |
| Loans | 10,820 | 28,627 | - | 303 | 45 | *28,975* | 18 | - | - | - | 39,812 |
| Other financial assets | 9,924 | 358 | 115 | 10 | - | *483* | - | 88 | 23 | - | 10,519 |
| Investments in real estate | 743 | 1,238 | - | 3 | 15 | *1,256* | - | - | - | - | 1,999 |
| **Investments general account** | **93,046** | **54,298** | **2,236** | **983** | **747** | ***58,264*** | **5,328** | **90** | **85** | **-** | **156,813** |
| Shares | - | 9,689 | 15,503 | 295 | 13 | *25,499* | - | - | - | (7) | 25,492 |
| Debt securities | 4,779 | 15,434 | 9,847 | 235 | 10 | *25,526* | - | - | - | - | 30,305 |
| Unconsolidated investment funds | 102,534 | - | 36,600 | 879 | 64 | *37,543* | - | - | - | - | 140,077 |
| Other financial assets | 27 | 2,862 | 4,150 | 9 | 1 | *7,022* | - | - | - | - | 7,049 |
| Investments in real estate | - | - | 686 | - | - | *686* | - | - | - | - | 686 |
| **Investments for account of policyholders** | **107,341** | **27,985** | **66,786** | **1,418** | **88** | ***96,276*** | **-** | **-** | **-** | **(7)** | **203,610** |
| Investments on balance sheet | 200,387 | 82,283 | 69,021 | 2,401 | 834 | *154,540* | 5,328 | 90 | 85 | (7) | 360,423 |
| Off-balance sheet investments third parties | 240,072 | 952 | 5,333 | 3,154 | 507 | *9,946* | 2,734 | 130,889 | - | (864) | 382,776 |
| **Total revenue-generating investments** | **440,458** | **83,235** | **74,354** | **5,556** | **1,342** | ***164,487*** | **8,061** | **130,979** | **85** | **(871)** | **743,200** |
| **Investments** | | | | | | | | | | | |
| Available-for-sale | 77,918 | 23,044 | 2,152 | 660 | 687 | *26,544* | 5,289 | 87 | 23 | - | 109,860 |
| Loans | 10,820 | 28,627 | - | 303 | 45 | *28,975* | 18 | - | - | - | 39,812 |
| Financial assets at fair value through profit or loss | 110,906 | 29,374 | 66,183 | 1,436 | 88 | *97,080* | 21 | 4 | 62 | (7) | 208,066 |
| Investments in real estate | 743 | 1,238 | 686 | 3 | 15 | *1,942* | - | - | - | - | 2,685 |
| **Total investments on balance sheet** | **200,387** | **82,283** | **69,021** | **2,401** | **834** | ***154,540*** | **5,328** | **90** | **85** | **(7)** | **360,423** |
| Investments in joint ventures | 7 | 877 | - | - | 495 | *1,373* | 134 | 99 | - | - | 1,614 |
| Investments in associates | 95 | 21 | 8 | 2 | - | *30* | 21 | 125 | (1) | - | 270 |
| Other assets | 31,003 | 15,260 | 12,718 | 293 | 170 | *28,426* | 3,122 | 293 | 31,107 | (30,338) | 63,627 |
| **Consolidated total assets** | **231,493** | **98,441** | **81,747** | **2,696** | **1,500** | ***184,370*** | **8,604** | **607** | **31,192** | **(30,345)** | **425,935** |

| Investments | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holding and other activities | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | | |
| Shares | 652 | 136 | 506 | 38 | 2 | *682* | - | 2 | 124 | - | 1,460 |
| Debt securities | 65,284 | 23,370 | 13,185 | 525 | 636 | *37,715* | 4,391 | - | - | - | 107,390 |
| Loans | 10,062 | 28,007 | - | 340 | 62 | *28,409* | 19 | - | 88 | - | 38,577 |
| Other financial assets | 10,783 | 335 | 160 | 6 | 2 | *503* | - | 72 | 18 | - | 11,376 |
| Investments in real estate | 840 | 1,148 | - | 2 | - | *1,150* | - | - | - | - | 1,990 |
| **Investments general account** | **87,620** | **52,996** | **13,850** | **911** | **702** | ***68,459*** | **4,409** | **74** | **230** | **-** | **160,792** |
| Shares | - | 9,174 | 17,274 | 247 | 12 | *26,707* | - | - | - | (8) | 26,699 |
| Debt securities | 4,967 | 14,642 | 11,728 | 256 | 13 | *26,640* | - | - | - | - | 31,606 |
| Unconsolidated investment funds | 96,187 | 17 | 37,622 | 959 | 61 | *38,658* | - | - | - | - | 134,845 |
| Other financial assets | 10 | 2,923 | 3,115 | 6 | 1 | *6,044* | - | - | - | - | 6,054 |
| Investments in real estate | - | - | 1,022 | - | - | *1,022* | - | - | - | - | 1,022 |
| **Investments for account of policyholders** | **101,164** | **26,756** | **70,760** | **1,468** | **87** | ***99,070*** | **-** | **-** | **-** | **(8)** | **200,226** |
| Investments on balance sheet | 188,784 | 79,752 | 84,610 | 2,379 | 789 | *167,529* | 4,409 | 74 | 230 | (8) | 361,019 |
| Off-balance sheet investments third parties | 212,704 | 897 | 3,899 | 2,855 | 508 | *8,158* | 2,317 | 127,329 | - | (1,069) | 349,440 |
| **Total revenue-generating investments** | **401,487** | **80,648** | **88,509** | **5,234** | **1,297** | ***175,687*** | **6,727** | **127,404** | **230** | **(1,077)** | **710,458** |
| **Investments** | | | | | | | | | | | |
| Available-for-sale | 72,761 | 22,479 | 13,534 | 545 | 638 | *37,195* | 4,370 | 65 | 18 | - | 114,409 |
| Loans | 10,062 | 28,007 | - | 340 | 62 | *28,409* | 19 | - | 88 | - | 38,577 |
| Financial assets at fair value through profit or loss | 105,121 | 28,119 | 70,054 | 1,493 | 88 | *99,753* | 21 | 9 | 124 | (8) | 205,020 |
| Investments in real estate | 840 | 1,148 | 1,022 | 2 | - | *2,171* | - | - | - | - | 3,012 |
| **Total investments on balance sheet** | **188,784** | **79,752** | **84,610** | **2,379** | **789** | ***167,529*** | **4,409** | **74** | **230** | **(8)** | **361,019** |
| Investments in joint ventures | 7 | 837 | - | - | 505 | *1,341* | 101 | 109 | 3 | - | 1,561 |
| Investments in associates | 75 | 19 | 9 | - | - | *28* | 12 | 126 | - | - | 242 |
| Other assets | 27,396 | 17,349 | 5,204 | 322 | 124 | *22,984* | 3,070 | 304 | 31,020 | (31,881) | 52,908 |
| **Consolidated total assets** | **216,262** | **97,956** | **89,822** | **2,701** | **1,417** | ***191,882*** | **7,592** | **613** | **31,254** | **(31,889)** | **415,729** |

## 6 Premium income and premiums paid to reinsurers

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Life insurance | 20,400 | 19,583 | 16,896 |
| Non-life insurance | 3,053 | 3,342 | 2,968 |
| **Total premium income** | **23,453** | **22,925** | **19,864** |
| - Accident and health insurance | 2,609 | 2,703 | 2,316 |
| - General insurance | 444 | 640 | 653 |
| **Non-life insurance premium income** | **3,053** | **3,342** | **2,968** |

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Life insurance | 2,932 | 2,694 | 2,701 |
| Non-life insurance | 244 | 286 | 310 |
| **Total premiums paid to reinsurers** | **3,176** | **2,979** | **3,011** |
| - Accident and health insurance | 238 | 268 | 291 |
| - General insurance | 7 | 18 | 19 |
| **Non-life insurance paid to reinsurers** | **244** | **286** | **310** |

Premium income Life insurance includes EUR 5,255 million (2015: EUR 3,575 million) of premiums related to insurance policies upgraded to the retirement platform in the UK.

## 7 Investment income

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Interest income | 6,479 | 7,087 | 6,759 |
| Dividend income | 1,180 | 1,306 | 1,265 |
| Rental income | 129 | 133 | 124 |
| **Total investment income** | **7,788** | **8,525** | **8,148** |
| Investment income related to general account | 5,737 | 6,099 | 5,717 |
| Investment income for account of policyholders | 2,051 | 2,426 | 2,431 |
| **Total** | **7,788** | **8,525** | **8,148** |

Included in interest income is EUR 230 million (2015: EUR 223 million; 2014: EUR 265 million) in respect of interest income accrued on impaired financial assets. The interest income on financial assets that are not carried at fair value through profit or loss amounted to EUR 5,642 million (2015: EUR 5,951 million; 2014: EUR 5,498 million).

| **Total investment income from:** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Shares | 1,180 | 1,306 | 1,265 |
| Debt securities and money market instruments | 4,838 | 5,332 | 5,067 |
| Loans | 1,752 | 1,760 | 1,674 |
| Real estate | 129 | 133 | 124 |
| Other | (111) | (6) | 19 |
| **Total** | **7,788** | **8,525** | **8,148** |

| **Investment income from financial assets held for general account:** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Available-for-sale | 4,007 | 4,235 | 3,889 |
| Loans | 1,752 | 1,760 | 1,674 |
| Financial assets designated at fair value through profit or loss | 80 | 115 | 127 |
| Real estate | 69 | 61 | 54 |
| Derivatives | (139) | (96) | (19) |
| Other | (32) | 25 | (8) |
| **Total** | **5,737** | **6,099** | **5,717** |

## 8 Fee and commission income

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Fee income from asset management | 1,702 | 1,648 | 1,406 |
| Commission income | 562 | 614 | 559 |
| Other | 144 | 176 | 172 |
| **Total fee and commission income** | **2,408** | **2,438** | **2,137** |

Included in fee and commission income is EUR 55 million of fees on trust and fiduciary activities (2015: EUR 56 million; 2014: EUR 35 million).

## 9 Income from reinsurance ceded

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Recovered claims and benefits | 3,477 | 2,784 | 2,604 |
| Change in technical provisions | (26) | 309 | 98 |
| Commissions | 236 | 227 | 205 |
| **Total** | **3,687** | **3,321** | **2,906** |

## 10 Results from financial transactions

| **Results from financial transactions comprise:** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives | (42) | (35) | 192 |
| Realized gains and (losses) on financial investments | 327 | 349 | 697 |
| Gains and (losses) on investments in real estate | 70 | 145 | (4) |
| Net fair value change of derivatives | 435 | 3 | 1,621 |
| Net fair value change on for account of policyholder financial assets at fair value through profit or loss | 15,121 | (110) | 11,226 |
| Net fair value change on investments in real estate for account of policyholders | (26) | 67 | 53 |
| Net foreign currency gains and (losses) | 41 | (29) | (21) |
| Net fair value change on borrowings and other financial liabilities | 21 | 9 | 5 |
| Realized gains and (losses) on repurchased debt | 1 | 2 | 3 |
| **Total** | **15,949** | **401** | **13,772** |

| Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives comprise: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Shares | 4 | - | 100 |
| Debt securities and money market investments | 8 | (24) | 31 |
| Other | (54) | (12) | 61 |
| **Total** | **(42)** | **(35)** | **192** |

Other mainly includes net fair value changes of alternative investments.

| Realized gains and losses on financial investments comprise: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Shares | 46 | 44 | 197 |
| Debt securities and money market investments | 211 | 346 | 463 |
| Loans | 16 | 20 | 35 |
| Other | 54 | (60) | 2 |
| **Total** | **327** | **349** | **697** |

| Realized gains and losses on financial investments comprise: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Available-for-sale investments | 311 | 330 | 662 |
| Loans | 16 | 20 | 35 |
| **Total** | **327** | **349** | **697** |

| Net fair value change of derivatives comprise: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net fair value change on economic hedges where no hedge accounting is applied | 969 | (598) | 3,650 |
| Net fair value change on bifurcated embedded derivatives | (565) | 614 | (2,073) |
| Ineffective portion of hedge transactions to which hedge accounting is applied | 31 | (14) | 43 |
| **Total** | **435** | **3** | **1,621** |

| The ineffective portion of hedge transactions to which hedge accounting is applied comprises: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Fair value change on hedging instruments in a fair value hedge | (204) | 49 | (679) |
| Fair value change on hedged items in a fair value hedge | 231 | (66) | 724 |
| Ineffectiveness fair value hedge | 26 | (17) | 45 |
| Ineffectiveness cash flow hedges | 5 | 4 | (2) |
| **Total** | **31** | **(14)** | **43** |

| Net fair value change on for account of policyholder financial assets at fair value through profit or loss comprise: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Shares | 2,462 | 706 | 1,349 |
| Debt securities and money market investments | 1,682 | (529) | 3,744 |
| Unconsolidated investment funds | 10,496 | (356) | 5,625 |
| Derivatives | 252 | 69 | 507 |
| Other | 230 | - | 2 |
| **Total** | **15,121** | **(110)** | **11,226** |

The change of the net fair value change on for account of policyholder financial assets at fair value through profit or loss in 2016 compared to 2015 is mainly driven by equity markets and interest rates movements. Net fair value changes on for account of policyholder financial assets at fair value through profit or loss are offset by changes in technical provisions reported as part of the lines Change in valuation of liabilities for insurance contracts and Change in valuation of liabilities for investment contracts in note 12 Policyholder claims and benefits.

## 11 Other income

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Other income | 66 | 83 | 61 |

Other income of EUR 66 million for 2016 includes the result on the sale of Transamerica Financial Advisors. This transaction has resulted in a gain of USD 58 million (EUR 52 million). Refer to note 51 Business combinations for more details.

Other income in 2015 included a release of EUR 38 million of the earn out provision regarding Liberbank in Spain. In addition, other income included the results from the sale of Clark Consulting and the 25.1% share in Seven Investment Management (7IM). The 7IM transaction led to a net gain of EUR 10 million (GBP 7 million) and was recorded as an associate in the books of Aegon. The sale of Clark Consulting led to a book gain of EUR 7 million (USD 8 million). Please see also note 51 Business combinations for more details.

Other income in 2014 mainly reflected the release of EUR 23 million regarding the earn out provision of Liberbank in Spain and the guarantee fund payments release of EUR 14 million related to the sale of government assets in Poland to the state, following pension legislation changes introduced in 2013.

## 12 Policyholder claims and benefits

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Benefits and claims paid life | 23,877 | 23,130 | 15,827 |
| Benefits and claims paid non-life | 2,052 | 2,128 | 1,752 |
| Change in valuation of liabilities for insurance contracts | 16,193 | 7,880 | 17,273 |
| Change in valuation of liabilities for investment contracts | (104) | (6,678) | 1,404 |
| Other | (45) | (17) | (42) |
| **Total** | **41,974** | **26,443** | **36,214** |

Policyholder claims and benefits includes claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. The lines Change in valuation of liabilities for insurance contracts and Change in valuation of liabilities for investment contracts reflect changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in note 10 Results from financial transactions of EUR 15,121 million (2015: EUR (110) million, 2014: EUR 11,226 million). In addition, the line Change in valuation of liabilities for insurance contracts includes an increase of technical provisions for life insurance contracts of EUR 2,349 million (2015: increase of EUR 3,410 million, 2014: increase of 7,935 million).

## 13 Profit sharing and rebates

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Surplus interest bonuses | 4 | 2 | 2 |
| Profit appropriated to policyholders | 45 | 29 | 15 |
| **Total** | **49** | **31** | **17** |

## 14 Commissions and expenses

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Commissions | 2,929 | 3,313 | 2,992 |
| Employee expenses | 2,287 | 2,280 | 2,067 |
| Administration expenses | 1,273 | 1,278 | 1,127 |
| Deferred expenses | (1,203) | (1,533) | (1,465) |
| Amortization of deferred expenses | 880 | 1,143 | 769 |
| Amortization of VOBA and future servicing rights | 184 | 117 | 140 |
| **Total** | **6,351** | **6,598** | **5,629** |

Included in administration expenses is an amount of EUR 89 million of depreciation that relates to equipment, software and real estate held for own use (2015: EUR 84 million; 2014: EUR 78 million). Minimum lease payments recognized as expense amounted to EUR 17 million (2015: EUR 19 million; 2014: EUR 6 million).

| **Employee expenses** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Salaries | 1,471 | 1,462 | 1,295 |
| Post-employment benefit costs | 338 | 335 | 272 |
| Social security charges | 155 | 145 | 129 |
| Other personnel costs | 294 | 320 | 337 |
| Shares, share appreciation rights, share options | 28 | 17 | 33 |
| **Total** | **2,287** | **2,280** | **2,067** |

An amount of EUR 46 million is included in employee expenses relating to defined contributions (2015: EUR 51 million; 2014: EUR 43 million).

### Long-term incentive plans

Senior managers within Aegon, not classified as 'Identified Staff', have been granted the conditional right to receive Aegon shares if certain performance indicators are met and depending on continued employment of the individual employee to whom the rights have been granted. The shares were conditionally granted at the beginning of the year at the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of a plan year. The performance indicators apply over a performance period of one year and consist of financial and non-financial targets set by the Supervisory Board or the local remuneration committees. Following the performance year, shares are allocated based on actual performance. A vesting period of two years applies after which the shares are transferred to the individual employees. In specific circumstances Aegon's Supervisory Board will reclaim variable compensation that has already been paid out or vested.

### Variable compensation Identified Staff

Members of the Executive Board and the Management Board as well as other selected jobholders have been defined as 'Identified Staff' in accordance with the rules applicable to them and their interpretation by relevant supervisory authorities. Of these, the Dutch 2015 Act on compensation in the financial sector (Wet beloningsbeleid financiële ondernemingen Wft) and the Dutch 2014 Decree on sound remuneration policy (Regeling beheerst beloningsbeleid 2014) are prominent examples. The rules have been adopted in Aegon's Global Remuneration Framework. After the performance period, and based on the framework, variable compensation, if any, is partially made available and partly deferred. Variable compensation is paid in both cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of the plan year. The performance indicators apply over a performance period of one year and consist of Group and/or reporting unit targets (both financial and non-financial) set by the Supervisory Board or the local remuneration committees and personal/strategic targets. The conditional grant of variable compensation is also dependent on continued employment of the individual employee to whom the rights have been granted. An ex-post assessment is applicable to determine whether allocated (unvested) variable compensation should become unconditional or should be adjusted. In addition, in specific circumstances Aegon's Supervisory Board will reclaim variable compensation that has already been paid out or vested. For members of the Executive Board and the Management Board all variable compensation has vested after three years following the performance period. At vesting, the variable compensation is transferred to the individual employees. Additional holding periods of up to three years may apply for vested shares. Members of the Executive Board and the members of the Management Board who are based in the Netherlands are not entitled to execute any transactions regarding the shares for a period of three years following vesting (with the exception of shares withheld or sold 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).

In compliance with regulations under Dutch law, no transactions regarding the shares may be exercised in closed periods.

Below an overview is provided of shares provided in active plans for Long-term incentive and Variable compensation Identified Staff.

| | 2007 | 2011 [1] | 2012 [1] | 2013 [1] | 2014 [1] | 2015 [1] | 2016 [1] | Total |
|---|---|---|---|---|---|---|---|---|
| Number of shares conditionally granted [2] | 18,506 | 4,075,460 | 9,195,284 | 5,735,046 | 5,306,037 | 5,178,633 | 6,809,814 | 36,318,780 |
| Number of shares allocated | 18,506 | 6,452,535 | 13,392,200 | 8,536,076 | 4,714,569 | 4,942,275 | - | 38,056,161 |
| Unvested at January 1, 2015 | 9,253 | 1,858,015 | 12,247,812 | 8,014,043 | 5,306,037 | - | - | 27,435,160 |
| Number of shares conditionally granted [2] | - | - | - | - | - | 5,178,633 | - | 5,178,633 |
| Number of shares allocated | - | - | - | - | (591,468) | - | - | (591,468) |
| Number of shares forfeited | - | - | 350,398 | 364,159 | 74,384 | - | - | 788,941 |
| Number of shares vested | - | 1,858,015 | 5,312,631 | 191,494 | 267,780 | - | - | 7,629,920 |
| **Unvested at December 31, 2015** | **9,253** | **-** | **6,584,783** | **7,458,390** | **4,372,405** | **5,178,633** | **-** | **23,603,464** |
| Number of shares conditionally granted [2] | - | - | - | - | - | | 6,809,814 | 6,809,814 |
| Number of shares allocated | 280 | - | - | (45,557) | 16,937 | (330,501) | - | (358,841) |
| Number of shares forfeited | - | - | 76,435 | 141,013 | 95,977 | 15,985 | - | 329,410 |
| Number of shares vested | 9,533 | - | 6,508,348 | 3,167,260 | 111,521 | 278,510 | - | 10,075,172 |
| **Unvested at December 31, 2016** | **-** | **-** | **-** | **4,104,560** | **4,181,844** | **4,553,637** | **6,809,814** | **19,649,855** |
| Average share price used for grant in EUR [3] | | 4.727 | 3.126 | 4.917 | 6.739 | 6.106 | 5.128 | |
| Fair value of shares at grant date in EUR | | 3.915 to 4.581 | 2.260 to 2.886 | 3.900 to 4.684 | 5.840 to 6.658 | 5.159 to 6.018 | 3.990 to 4.898 | |

[1] Performance year for both Long-term incentive plans and Variable compensation Identified Staff.
[2] Number of shares conditionally granted based on the at target number of grants made that could increase or decrease subject to the actual performance attained.
[3] This value is the volume weighted average price (VWAP) of Aegon on the Euronext Amsterdam stock exchange for the period December 15 to January 15.

For the vested tranches in 2016 Aegon introduced a net settlement option for participants to meet income tax obligations. This means that Aegon will not sell shares on the market, but hold these shares within Aegon and settle directly with the tax authorities in cash rather than in shares. The net settlement option does not change the share based payment right of the participants, therefore there is no incremental fair value, nor a related recognition of incremental fair value.

### Share appreciation rights and share options

Senior executives of Aegon companies, as well as other Aegon employees, have been offered both share appreciation rights (SARs) and share options. These share appreciation rights and share options have been granted at an exercise price equal to the market price of the shares at the date of the grant. The rights and options granted in 2006 – 2008 vest after three years and could only be exercised during the four years after the vesting date. Vesting and exercisability depend on continuing employment of the individual employee to whom the rights and options have been granted. Option plans are settled in equity, while stock appreciation rights are settled in cash or provide the employee with the choice of settlement.

In compliance with regulations under Dutch law, share appreciation rights and share options may not be exercised in closed periods.

No SARs and share options were granted after 2008. With regard to the SARs and options granted before 2009, no share options were exercised and no SARs were paid during 2014, 2015 and 2016. Similarly, no cash is received from exercise of share options during 2014, 2015, and 2016. As of 2015 all outstanding share appreciation rights and share options have expired.

The exposure from the issued SARs and share options was economically hedged by part of the position in treasury shares. There have been no modifications to the plans during the financial year.

Refer to note 53 Related party transactions for detailed information on conditional shares and share options granted to the Executive Board.

### Share appreciation rights

The following tables present the movements in number of SARs outstanding.

| | Number of SARs | Weighted average exercise price in EUR | Weighted average remaining contractual term in years | Aggregate intrinsic in EUR million |
|---|---|---|---|---|
| **Outstanding at January 1, 2015** | **165,200** | **8.93** | **0.21** | **-** |
| Forfeited | - | - | | |
| Expired | (165,200) | 8.93 | | |
| **Outstanding at December 31, 2015** | **-** | **-** | **-** | **-** |
| **Outstanding at December 31, 2016** | **-** | **-** | **-** | **-** |

Refer to note 47 Fair value for a further description of the method used to estimate the fair value and a description of the significant assumptions. The volatility is derived from quotations from external market sources and the expected dividend yield is derived from quotations from external market sources and the binomial option pricing model.

The liability related to SARs is valued at fair value at each reporting date. There were no costs related to the share appreciation rights in 2016 (2015: nil; 2014: nil).

### Share options

The following tables present the movements in number of share options.

| | Number of SARs | Weighted average exercise price in EUR | Weighted average remaining contractual term in years | Aggregate intrinsic in EUR million |
|---|---|---|---|---|
| **Outstanding at January 1, 2015** | **4,900,086** | **8.93** | **0.21** | **-** |
| Forfeited/Cancelled | (1,216,186) | 8.93 | | |
| Expired | (3,683,900) | 8.93 | | |
| **Outstanding at December 31, 2015** | **-** | **-** | **-** | **-** |
| **Outstanding at December 31, 2016** | **-** | **-** | **-** | **-** |

## 15 Impairment charges / (reversals)

| **Impairment charges / (reversals) comprise:** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Impairment charges on financial assets, excluding receivables | 117 | 95 | 132 |
| Impairment reversals on financial assets, excluding receivables | (58) | (119) | (66) |
| Impairment charges and reversals on non-financial assets and receivables | 36 | 1,275 | 21 |
| **Total** | **95** | **1,251** | **87** |

In 2015, impairment charges and reversals on non-financial assets and receivables include a charge of EUR 1,274 million mainly related to deferred acquisition costs in the UK. Recoverability of capitalized deferred policy acquisition costs was affected by the restructuring of the organization.

| **Impairment charges on financial assets, excluding receivables, from:** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Shares | 1 | 4 | 5 |
| Debt securities and money market instruments | 53 | 32 | 36 |
| Loans | 23 | 37 | 68 |
| Investments in associates | 7 | - | - |
| Investments in joint ventures | - | 21 | 23 |
| Other | 33 | - | - |
| **Total** | **117** | **95** | **132** |

| Impairment reversals on financial assets, excluding receivables, from: | 2016 | 2015 | 2014 |
|---|---|---|---|
| Debt securities and money market instruments | (42) | (109) | (56) |
| Loans | (14) | (9) | (10) |
| Other | (2) | - | - |
| **Total** | **(58)** | **(119)** | **(66)** |

For more details on impairments on financial assets, excluding receivables, refer to note 4 Financial risks.

## 16 Interest charges and related fees

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Subordinated loans | 34 | 33 | 23 |
| Trust pass-through securities | 9 | 9 | 7 |
| Borrowings | 210 | 240 | 290 |
| Other | 95 | 129 | 51 |
| **Total** | **347** | **412** | **371** |

The interest charges accrued on financial assets and liabilities that are not carried at fair value through profit or loss amounted to EUR 176 million (2015: EUR 269 million; 2014: EUR 242 million).

## 17 Other charges

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Other charges** | **700** | **774** | **172** |

Other charges in 2016 of EUR 700 million mainly relate to the book loss on the sale of the UK annuity portfolio (EUR 682 million) and charges related to claims and litigations regarding fees payable upon purchase or surrender of unit-linked policies in the Polish Life insurance portfolio (EUR 19 million). For more details on the sale of the UK annuity portfolio refer to note 22 Assets and Liabilities held for sale and note 51 Business combinations. In note 40 Provisions more details are provided on the Polish claims and litigations.

Other charges of EUR 774 million in 2015 mainly relate to the book loss on the sale of Aegon's Canadian life insurance business. For the sale of Canada refer to note 51 Business combinations.

Other charges of EUR 172 million in 2014 mainly included EUR 95 million related to the settlement with Optas, EUR 29 million related to provision for the modification of unit-linked policies in Poland, EUR 23 million related to a provision for the closed block of European direct marketing activities and EUR 15 million related to the reduction of the carrying amount of non-current financial assets related to the sale of the Canada operations.

## 18 Income tax

| | Note | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Current tax** | | | | |
| Current year | | 33 | 111 | 66 |
| Adjustments to prior years | | (46) | (70) | 38 |
| | | **(13)** | **42** | **104** |
| **Deferred tax** | **43** | | | |
| Origination / (reversal) of temporary differences | | 148 | (197) | 263 |
| Changes in tax rates / bases | | 93 | (22) | (12) |
| Changes in deferred tax assets as a result of recognition / write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences | | (54) | (8) | (63) |
| Non-recognition of deferred tax assets | | 33 | 22 | 17 |
| Adjustments to prior years | | 12 | 53 | (29) |
| | | **232** | **(153)** | **175** |
| **Income tax for the period (income) / charge** | | **219** | **(111)** | **280** |

Adjustments to prior years include shifts between current and deferred tax.

| **Reconciliation between standard and effective income tax:** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Income before tax | 805 | (634) | 1,475 |
| Income tax calculated using weighted average applicable statutory rates | 288 | (87) | 414 |
| **Difference due to the effects of:** | | | |
| Non-taxable income | (128) | 46 | (110) |
| Non-tax deductible expenses | 21 | 49 | 52 |
| Changes in tax rate/base | 93 | (22) | (12) |
| Different tax rates on overseas earnings | 8 | 6 | (22) |
| Tax credits | (41) | (100) | (35) |
| Other taxes | 38 | 14 | 43 |
| Adjustments to prior years | (34) | (17) | 9 |
| Origination and change in contingencies | 8 | 3 | 5 |
| Changes in deferred tax assets as a result of recognition / write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences | (54) | (8) | (63) |
| Non-recognition of deferred tax assets | 33 | 22 | 17 |
| Tax effect of (profit) / losses from joint ventures and associates | (7) | (8) | (8) |
| Other | (6) | (8) | (10) |
| | **(69)** | **(24)** | **(134)** |
| **Income tax for the period (income) / charge** | **219** | **(111)** | **280** |

The weighted average applicable statutory tax rate for 2016 is 35.7% (2015: 13.7%; 2014: 28.1%). The increase in the weighted average applicable statutory tax rate compared to prior years is caused by the increase of profits in higher taxed countries.[1]

Non-taxable income in 2015 is negatively impacted by the non-deductible loss on the sale of Aegon's Canadian life insurance business.

Non-tax deductible expenses in 2016 is lower in several countries.

Changes in tax rate/base in 2016 is heavily impacted by the release of profits from OCI to income statement in the United Kingdom. These profits were taxed in the past against high historic tax rates and are now released from OCI to the income statement against a lower statutory tax rate. The difference causes a negative impact in changes in tax rate/base.

In the UK, the corporate income tax rate will decrease to 19% as per April 1, 2017. The beneficial impact of this change is reflected in the 2015 change in tax rate/base. The tax rate will continue to decrease from 19% to 17% with effect from April 1, 2020. The minor impact of this tax rate change is included in the 2016 change in tax rate/base. In Spain, the corporate income tax rate decreased from 28% to 25% as from 2016. The impact of the change of the Spanish tax rate was included in the 2014 change in tax rate/base. In Hungary, the corporate income tax rate will decrease from 19% to 9% as from January 1, 2017. The minor impact of this tax rate change is included in change in tax rate/base.

Tax credits in 2015 includes tax benefits related to solar investments in the United States.

Adjustments to prior years includes a one-time tax benefit in the United States caused by the revised tax deduction for dividends received on prior filed tax returns.

As in previous years, Other mainly consists of tax effects of the UK life company that have no direct correlation to the IFRS-EU result and also consists of the effect of the various tax rates, other than the statutory tax rate, that are applicable to income of the UK life company.

The following tables present income tax related to components of other comprehensive income and retained earnings.

1 The weighted average applicable statutory tax rate in 2015 is impacted by a disproportional loss in the United Kingdom.

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Items that will not be reclassified to profit and loss:** | | | |
| Changes in revaluation reserve real estate held for own use | (3) | (2) | (2) |
| Remeasurements of defined benefit plans | 89 | (75) | 335 |
| | **86** | **(77)** | **333** |
| **Items that may be reclassified subsequently to profit and loss:** | | | |
| Gains / losses on revaluation of available-for-sale investments | (187) | 810 | (1,752) |
| Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments | 427 | 124 | 148 |
| Changes in cash flow hedging reserve | 24 | (98) | (364) |
| Movement in foreign currency translation and net foreign investment hedging reserve | (39) | (52) | (50) |
| | **225** | **783** | **(2,018)** |
| **Total income tax related to components of other comprehensive income** | **311** | **706** | **(1,685)** |

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Income tax related to equity instruments and other** | | | | |
| Income tax related to equity instruments | **33** | 44 | 46 | 47 |
| Other | | (3) | - | - |
| **Total income tax recognised directly in retained earnings** | | **41** | **46** | **47** |

## 19 Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing the net income attributable to owners, after deduction of coupons on perpetual securities and non-cumulative subordinated notes by the weighted average number of common shares, excluding common shares purchased by the Company and held as treasury shares (refer to note 32.1 Share capital – par value and 32.3 Treasury shares respectively).

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income / (loss) attributable to owners | 586 | (524) | 1,194 |
| Coupons on perpetual securities | (105) | (111) | (128) |
| Coupons on non-cumulative subordinated notes | (28) | (28) | (24) |
| **Net income / (loss) attributable to owners for basic earnings per share calculation** | **453** | **(663)** | **1,043** |
| Net income / (loss) attributable to common shareholders | 449 | (659) | 1,035 |
| Net income / (loss) attributable to common shareholders B | 3 | (5) | 7 |
| Weighted average number of common shares outstanding (in million) | 2,048 | 2,101 | 2,094 |
| Weighted average number of common shares B outstanding (in million) | 575 | 584 | 580 |
| Basic earnings per common share (EUR per share) | 0.22 | (0.31) | 0.49 |
| Basic earnings per common share B (EUR per share) | 0.01 | (0.01) | 0.01 |

### Diluted earnings per share

Diluted earnings per share is calculated by adjusting the average number of shares outstanding for share options. For the purpose of calculating diluted earnings per share, Aegon assumes that all dilutive share options have been exercised at the exercise price, or adjusted exercise price if necessary. A share option is considered dilutive if the exercise price was lower than the average market price for the period. The assumed proceeds from the exercise of share options are regarded as having been received from the issue of common shares at the average market price of the Aegon N.V. share during the year. The difference between the number of dilutive options considered exercised and the number of common shares that would have been issued at the average market price has been treated as an issue of common shares for no consideration.

The number of share options that has not been included in the weighted average number of common shares used in the calculation of diluted earnings per share amounted to nil in 2016 and 2015 (2014: 4,900,086). The average share price did not exceed the exercise prices in these option contracts. At year end, Aegon has no share options outstanding as all outstanding share options have expired as of March 11, 2015. Aegon has no share options on common shares B.

The diluted earnings per share equaled the basic earnings per share for all years disclosed since there were no share options considered dilutive as mentioned above.

## 20 Dividend per common share

### Final dividend 2016

It will be proposed to the Annual General Meeting of Shareholders on May 19, 2017, absent unforeseen circumstances, to pay a final dividend for the year 2016 of EUR 0.13 per common share. After taking into account the interim dividend 2016 of EUR 0.13 per common share, this will result in a total 2016 dividend of EUR 0.26 per common share. Proposed final dividend for the year and proposed total 2016 dividend per common share B are EUR 0.00325 and EUR 0.0065 respectively.

### Interim dividend 2016

The interim dividend 2016 was paid in cash or stock at the election of the shareholder. Approximately 58% of holders of common shares elected to receive the cash dividend. The remaining 42% have opted for stock dividend. The cash dividend amounted to EUR 0.13 per common share, the stock dividend amounted to one new Aegon common share for every 28 common shares held. The stock dividend and cash dividend are approximately equal in value. The interim dividend was payable as of September 16, 2016. The interim dividend 2016 for common shares B amounted to 1/40th of the dividend paid on common shares.

To neutralize the dilutive effect of the 2016 interim dividend paid in shares, Aegon executed a program to repurchase 30,765,224 common shares. Between October 3, 2016, and November 11, 2016, these common shares were repurchased at an average price of EUR 3.8406 per share. These shares will be held as treasury shares and will be used to cover future stock dividends.

### Final dividend 2015

The Annual General Meeting of Shareholders on May 20, 2016, approved a final dividend over 2015 of EUR 0.13 per common share payable in either cash or stock, related to the second half of 2015. Approximately 57% of holders of common shares elected to receive the cash dividend. The remaining 43% have opted for stock dividend. The final dividend was payable as of June 24, 2016. The stock dividend amounted to one new Aegon common share for every 30 common shares held. The stock dividend and cash dividend are approximately equal in value. Dividend paid on common shares B amounted to 1/40th of the dividend paid on common shares.

To neutralize the dilutive effect of the 2015 final dividend paid in shares, Aegon executed a program to repurchase 29,258,662 common shares. Between July 4, 2016, and August 12, 2016, these common shares were repurchased at an average price of EUR 3.5054 per share. These shares will be held as treasury shares and will be used to cover future stock dividends.

### Interim dividend 2015

The interim dividend 2015 was paid in cash or stock at the election of the shareholder. Approximately 57% of holders of common shares elected to receive the cash dividend. The remaining 43% have opted for stock dividend. The cash dividend amounted to EUR 0.12 per common share, the stock dividend amounted to one new Aegon common share for every 45 common shares held. The stock dividend and cash dividend are approximately equal in value. The interim dividend was payable as of September 18, 2015. The interim dividend 2015 for common shares B amounted to 1/40th of the dividend paid on common shares.

Aegon repurchased common shares to neutralize the dilutive effect of the 2015 interim dividend paid in shares. Aegon executed a program to repurchase 20,136,673 common shares. Between September 16, 2015, and October 13, 2015, these common shares were repurchased at an average price of EUR 5.2777 per share. These shares are held as treasury shares and will be used to cover future stock dividends.

### Final dividend 2014

The Annual General Meeting of Shareholders on May 20, 2015, approved a final dividend over 2014 of EUR 0.12 per common share payable in either cash or stock, related to the second half of 2014. Approximately 58% of shareholders elected to receive cash dividend. The remaining 42% opted for stock dividend. The final dividend was payable as of June 19, 2015. The stock dividend amounted to one new Aegon common share for every 55 common shares held. The stock dividend and cash dividend are approximately equal in value. Dividend paid on common shares B amounted to 1/40th of the dividend paid on common shares.

To neutralize the dilutive effect of the 2014 final dividend paid in shares, Aegon executed a program to repurchase 16,279,933 common shares. Between June 17, 2015, and July 14, 2015, these common shares were repurchased at an average price of EUR 6.6324 per share. These shares will be held as treasury shares and will be used to cover future stock dividends.

### Interim dividend 2014

The interim dividend 2014 was paid in cash or stock at the election of the shareholder. Approximately 55% of holders of common shares elected to receive the cash dividend. The remaining 45% have opted for stock dividend. The cash dividend amounted to EUR 0.11 per common share, the stock dividend amounted to one new Aegon common share for every 58 common shares held.

The stock dividend and cash dividend are approximately equal in value. The interim dividend was payable as of September 19, 2014. The interim dividend 2014 for common shares B amounted to 1/40th of the dividend paid on common shares.

Aegon repurchased common shares to neutralize the dilutive effect of the 2014 interim dividend paid in shares. Aegon executed a program to repurchase 16,319,939 common shares. Between September 17, 2014, and October 15, 2014, these common shares were repurchased at an average price of EUR 6.4919 per share. These shares are held as treasury shares and will be used to cover future stock dividends.

## 21 Cash and cash equivalents

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Cash at bank and in hand | 3,727 | 2,199 | 1,650 |
| Short-term deposits | 3,666 | 3,614 | 4,876 |
| Money market investments | 3,939 | 3,318 | 3,544 |
| Short-term collateral | 16 | 463 | 539 |
| **At December 31** | **11,347** | **9,594** | **10,610** |

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

EUR 8 billion (2015: EUR 8 billion) of cash collateral is received related to securities lending, repurchase agreements and margins on derivatives transactions. A corresponding liability to repay the cash is recognized in other liabilities (note 44 Other liabilities). Refer to note 49 Transfer of financial assets for details on collateral received and paid. Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. EUR 16 million (2015: EUR 463 million) of the cash collateral received is included in cash and cash equivalents and the remainder is included in other asset classes as that collateral is typically reinvested. Aegon earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities. The decrease in 2016 is mainly driven by lower exposure to derivative transactions in the UK due to the sale of the UK annuity portfolio. Income from securities lending programs was approximately EUR 13 million (2015: EUR 8 million; 2014: EUR 7 million).

The weighted effective interest rate on short-term deposits was 0.17% negative (2015: 0.21% positive) and these deposits have an average maturity of 23 days (2015: 33 days).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

| | **Note** | **2016** | 2015 | 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | | 11,347 | 9,594 | 10,610 |
| Cash classified as Assets held for sale | **22** | - | - | 43 |
| Bank overdrafts | **44** | (1) | - | (4) |
| **Net cash and cash equivalents** | | **11,346** | **9,593** | **10,649** |

Cash and cash equivalents include cash and demand balances held at the Dutch Central Bank. The Dutch Central Bank requires Aegon Bank N.V. to place 1% of their deposits with agreed maturity or the savings accounts (without restrictions to withdraw their money) in an account with the Dutch Central Bank. This deposit is renewed every 42-49 days, based on an updated valuation of total assets. The interest received on this deposit is equal to the ECB deposit rate (which was -30bp in the months January and February of 2016 and -40bp the rest of the year). The year end minimum required balance on deposit by the Dutch Central Bank was EUR 63 million (2015: EUR 49 million). These deposits are therefore not freely available.

| **Summary cash flow statement** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Net cash flows from operating activities | 3,319 | 914 | 4,122 |
| Net cash flows from investing activities | (1,078) | 615 | (71) |
| Net cash flows from financing activities | (465) | (2,785) | 715 |
| **Net increase in cash and cash equivalents** | **1,776** | **(1,257)** | **4,766** |

Net cash and cash equivalents at December 31, 2016, are negatively impacted by effects of changes in exchange rates of EUR 23 million (2015: EUR 200 million positive; 2014: EUR 231 million positive).

### Analysis of cash flows

#### 2016 compared to 2015

##### Net cash flows from operating activities

Total net cash flows from operating activities increased by EUR 2,405 million to a EUR 3,319 million inflow (2015: EUR 914 million inflow). The increase is mainly driven by higher inflows from insurance and investment liabilities for account of policyholders and an increase in changes in other liabilities. These cash inflows are partly offset by a decrease in results from financial transactions.

##### Net cash flows from investing activities

Net cash flows from investing activities decreased by EUR 1,693 million to a EUR 1,078 million outflow (2015: EUR 615 million inflow). The decrease is mainly driven by a net cash outflow related to the sale of Aegon's UK annuity portfolio and the commercial non-life insurance business in Aegon Nederland (refer to note 51 Business combinations).

##### Net cash flows from financing activities

Net cash flows from financing activities increased by EUR 2,320 million to a EUR 465 million outflow (2015: EUR 2,785 million outflow). The increase is a result of proceeds and repayments of borrowings (refer to note 39 Borrowings). This was partly offset by the share buyback program, executed in 2016, to neutralize the dilutive effect of the cancellation of the preferred shares in 2013.

#### 2015 compared to 2014

##### Net cash flows from operating activities

Total net cash flows from operating activities decreased by EUR 3,208 million to a EUR 914 million inflow (2014: EUR 4,122 million inflow). The decrease is mainly driven by an outflow from changes in accruals and changes in cash collateral. These cash outflows are partly offset by the increase in results from financial transactions and net purchase of investments for account of policyholders and the money market investments.

##### Net cash flows from investing activities

Net cash flows from investing activities increased by EUR 685 million to a EUR 615 million inflow (2014: EUR 71 million outflow). The increase is mainly driven by the sale of La Mondiale, Aegon's life insurance operations in Canada, Clark Consulting and 7IM. This increase is partly offset by the acquisition of Mercer and a 25% stake in La Banque Postale Asset Management.

##### Net cash flows from financing activities

Net cash flows from financing activities decreased by EUR 3,500 million to a EUR 2,785 million outflow (2014: EUR 715 million inflow). The decrease is mainly a result of proceeds and repayments of borrowings (refer to note 39 Borrowings).

## 22 Assets and liabilities held for sale

Assets and liabilities held for sale include disposal groups whose carrying amount will be recovered principally through a sale transaction expected within the next year rather than through continuing operations. This relates to businesses for which a sale is agreed upon or a sale is highly probable at the reporting date, but for which the transaction has not yet fully closed.

The major type of assets included in the assets held for sale comprise of the reinsurance asset linked to the sale of Aegon UK's annuity portfolio, previously reported in the United Kingdom segment. The liabilities included in the liabilities held for sale are the insurance liabilities related to this portfolio. For details related to the sale of the UK annuity portfolio, refer to note 51 Business combinations.

## 23 Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate.

| | Note | 2016 | 2015 |
|---|---|---|---|
| Available-for-sale (AFS) | | 109,860 | 114,409 |
| Loans | | 39,812 | 38,577 |
| Financial assets at fair value through profit or loss (FVTPL) | | 5,142 | 5,816 |
| **Total financial assets, excluding derivatives** | **23.1** | **154,814** | **158,803** |
| Investments in real estate | **23.2** | 1,999 | 1,990 |
| **Total investments for general account** | | **156,813** | **160,792** |

Refer to note 47 Fair value for information on fair value measurement. Loans are held at amortized cost, but the estimated fair value is also disclosed in note 47.

## 23.1 Financial assets, excluding derivatives

| | AFS | FVTPL | Loans | Total | Fair value |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Shares | 824 | 490 | - | 1,314 | 1,314 |
| Debt securities | 101,054 | 2,115 | - | 103,169 | 103,169 |
| Money market and other short-term investments | 6,776 | 317 | - | 7,093 | 7,093 |
| Mortgage loans | - | - | 34,206 | 34,206 | 38,499 |
| Private loans | - | - | 3,166 | 3,166 | 3,569 |
| Deposits with financial institutions | - | - | 129 | 129 | 129 |
| Policy loans | - | - | 2,207 | 2,207 | 2,207 |
| Other | 1,206 | 2,219 | 104 | 3,529 | 3,529 |
| **At December 31, 2016** | **109,860** | **5,142** | **39,812** | **154,814** | **159,510** |
| **2015** | | | | | |
| Shares | 820 | 640 | - | 1,460 | 1,460 |
| Debt securities | 105,151 | 2,239 | - | 107,390 | 107,390 |
| Money market and other short-term investments | 7,141 | 303 | - | 7,444 | 7,444 |
| Mortgage loans | - | - | 33,214 | 33,214 | 37,648 |
| Private loans | - | - | 2,847 | 2,847 | 3,165 |
| Deposits with financial institutions | - | - | 106 | 106 | 106 |
| Policy loans | - | - | 2,201 | 2,201 | 2,201 |
| Other | 1,297 | 2,635 | 210 | 4,141 | 4,141 |
| **At December 31, 2015** | **114,409** | **5,816** | **38,577** | **158,803** | **163,555** |

Of the debt securities, money market and other short-term investments, mortgage loans and private loans EUR 15,762 million is current (2015: EUR 14,828 million).

Refer to note 47 Fair value for information on fair value measurement.

### Loan allowance

Movement on the loan allowance account during the year were as follows:

| | **2016** | 2015 |
|---|---|---|
| At January 1 | (142) | (249) |
| Addition charged to income statement | (23) | (37) |
| Reversal to income statement | 14 | 9 |
| Amounts written off | 17 | 33 |
| Net exchange differences | - | (5) |
| Other | (3) | 106 |
| **At December 31** | **(137)** | **(142)** |

In 2015, other movement includes the impact of the conversion of the mortgage loans in Hungary, which were formerly denominated in a foreign currency, into HUF denominated loans as required by Hungarian law. As a result of the changed conditions, the former mortgage loans were derecognized and the new mortgage loans have been subsequently recognized at fair value.

Refer to note 49 Transfers of financial assets for a discussion of collateral received and paid.

### 23.2 Investments in real estate

| | 2016 | 2015 |
|---|---|---|
| At January 1 | 1,990 | 1,792 |
| Additions | 89 | 77 |
| Subsequent expenditure capitalized | 12 | 7 |
| Transfers from other headings | 34 | 24 |
| Disposals | (215) | (163) |
| Fair value gains / (losses) | 70 | 145 |
| Net exchange differences | 19 | 83 |
| Other | (1) | 25 |
| **At December 31** | **1,999** | **1,990** |

In 2016, 78% of the value of Aegon's properties, both for general account and for account of policyholders, were appraised (2015: 95%), of which 98% was performed by independent external appraisers (2015: 99%).

Of the investments in real estate EUR 743 million (2015: EUR 840 million) is held by Aegon Americas and EUR 1,238 million (2015: EUR 1,148 million) is held by Aegon the Netherlands.

Aegon USA has entered into a commercial property portfolio, consisting of office, retail and industrial buildings. These non-cancellable leases have remaining lease terms up to 20 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to either a fixed schedule or prevailing market conditions.

Aegon the Netherlands has entered into long-term residential property leases that can be terminated subject to a short-term notice. Under Dutch law, the maximum annual rent increase on residential property rented in the affordable housing segment is specified by the Dutch national government and equals the annual inflation rate plus a small margin.

Refer to note 48 Commitments and contingencies for a description of non-cancellable lease rights.

Rental income of EUR 69 million (2015: EUR 61 million; 2014: EUR 54 million) is reported as part of investment income in the income statement. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to EUR 79 million (2015: EUR 97 million; 2014: EUR 72 million). In 2016, EUR 1 million of direct operating expenses is related to investment properties that did not generate rental income during the period (2015: EUR 1 million; 2014: 11 million).

Transfers from other headings mainly reflect the properties that were foreclosed during the year. The associated mortgage loans were previously reported as part of investments.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 48 Commitments and contingencies for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

## 24 Investments for account of policyholders

Investments for account of policyholders comprise financial assets at fair value through profit or loss, excluding derivatives, and investments in real estate.

| | Note | 2016 | 2015 |
|---|---|---|---|
| Shares | | 25,492 | 26,699 |
| Debt securities | | 30,305 | 31,606 |
| Money market and other short-term investments | | 1,231 | 1,907 |
| Deposits with financial institutions | | 2,951 | 1,222 |
| Unconsolidated investment funds | | 140,077 | 134,845 |
| Other | | 2,868 | 2,925 |
| **Total investments for account of policyholders at fair value through profit or loss, excluding derivatives** | | **202,924** | **199,204** |
| Investments in real estate | **24.1** | 686 | 1,022 |
| **Total investments for account of policyholders** | | **203,610** | **200,226** |

Refer to note 47 Fair value for a summary of all financial assets and financial liabilities at fair value through profit or loss.

### 24.1 Investments in real estate for account of policyholders

| | 2016 | 2015 |
|---|---|---|
| At January 1 | 1,022 | 1,101 |
| Additions | 74 | 271 |
| Subsequent expenditure capitalized | 7 | 9 |
| Disposals | (260) | (488) |
| Fair value gains / (losses) | (26) | 67 |
| Net exchange differences | (131) | 60 |
| **At December 31** | **686** | **1,022** |

The investment property is leased out under operating leases.

Rental income of EUR 60 million (2015: EUR 72 million; 2014: EUR 70 million) is reported as part of investment income in the income statement. Direct operating expenses relating to investments in real estate for account of policyholder amounted to EUR 5 million in 2016 (2015: EUR 7 million, 2014: EUR 6 million). There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 48 Commitments and contingencies for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

## 25 Derivatives

| | Derivative asset | | Derivative liability | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Derivatives for general account** | | | | |
| Derivatives not designated in a hedge | 6,516 | 8,982 | 7,819 | 9,626 |
| Derivatives designated as fair value hedges | 62 | 63 | 579 | 630 |
| Derivatives designated as cash flow hedges | 1,234 | 1,516 | 250 | 331 |
| Derivatives designated as Net foreign investment hedges | 104 | 82 | 123 | 77 |
| | **7,916** | **10,643** | **8,771** | **10,664** |
| **Derivatives for account of policyholders** | | | | |
| Derivatives not designated in a hedge | 402 | 903 | 107 | 226 |
| | **402** | **903** | **107** | **226** |
| **Total derivatives** [1)] | **8,318** | **11,545** | **8,878** | **10,890** |

[1] Refer to note 47 Fair value for a summary of all financial assets and financial liabilities at fair value through profit or loss.

The fair value of derivatives on both the asset and liability side of the consolidated statement of financial position decreased during 2016 mainly due to the unwind of mutually offsetting derivatives and changes in interest rates and other market movements during the year. See note 47 Fair value for details on fair value measurement of derivatives.

Of the derivatives EUR 1,030 million (2015: EUR 726 million) and EUR 2,537 million (2015: EUR 1,179 million) are current derivative assets and liabilities respectively.

Aegon the Netherlands partially hedges the risk of future longevity increases in the Netherlands related to a part of its insurance liabilities. These longevity derivatives are constructed to pay out if the mortality rates in future years have decreased more than a pre-determined percentage compared with the base scenario at the moment of signing the contract. To further implement the strategy of reducing longevity risk, Aegon the Netherlands implemented an additional longevity hedge in 2016. The longevity transactions are used to enhance Aegon's risk-return profile and to improve capital efficiency.

The derivatives are measured at fair value through profit or loss in accordance with IAS 39. The value of the longevity derivatives are calculated using an internal model as there is no active market for this type of derivatives. For more details refer to the paragraph on underwriting risk included in note 36 Insurance contracts and the paragraph on derivatives included in note 47 Fair value.

The above mentioned transactions are used to enhance Aegon's risk-return profile and to improve capital efficiency.

The derivatives are measured at fair value through profit or loss in accordance with IAS 39. The value of the longevity derivatives are calculated using an internal model as there is no active market for this type of derivatives. For more details refer to the paragraph on underwriting risk included in note 36 Insurance contracts and the paragraph on derivatives included in note 47 Fair value.

## Use of derivatives

### Derivatives not designated in a hedge - general account

| | Derivative asset | | Derivative liability | |
|---|---|---|---|---|
| **Derivatives not designated in a hedge – general account** | **2016** | 2015 | **2016** | 2015 |
| Derivatives held as an economic hedge | 6,381 | 8,807 | 5,662 | 7,432 |
| Bifurcated embedded derivatives | 12 | 32 | 2,192 | 2,172 |
| Other | 124 | 143 | (35) | 22 |
| **Total** | **6,516** | **8,982** | **7,819** | **9,626** |

Aegon utilizes derivative instruments as a part of its asset liability risk management practices. The derivatives held for risk management purposes are classified as economic hedges to the extent that they do not qualify for hedge accounting, or that Aegon has elected not to apply hedge accounting. The economic hedges of certain exposures relate to an existing asset, liability or future reinvestment risk. In all cases, these are in accordance with internal risk guidelines and are closely monitored for continuing compliance.

Bifurcated embedded derivatives that are not closely related to the host contracts have been bifurcated and recorded at fair value in the consolidated statement of financial position. These bifurcated embedded derivatives are embedded in various institutional products, modified coinsurance and unit-linked insurance contracts in the form of guarantees for minimum benefits. Please refer to note 38 Guarantees in insurance contracts for more disclosures about these guarantees.

#### CDSs

Aegon has entered into free-standing credit derivative transactions. The positions outstanding at the end of the year were:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Notional** | **Fair value** | Notional | Fair value |
| **CDSs** | **4,466** | **51** | **4,401** | **23** |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Credit derivative disclosure by quality** | **Notional** | **Fair value** | Notional | Fair value |
| AAA | 1 | - | - | - |
| AA | 483 | 2 | 779 | 5 |
| A | 763 | 7 | 407 | 3 |
| BBB | 2,849 | 41 | 2,866 | 12 |
| BB | 243 | - | 310 | 2 |
| B or lower | 128 | 3 | 40 | 1 |
| **Total** | **4,466** | **51** | **4,401** | **23** |

Certain derivatives are used to add risk by selling protection in the form of single name and index based credit default swaps. Another strategy used is to synthetically replicate corporate and government credit exposures with credit derivatives. This involves the purchase of high quality, low risk assets and the sale of credit derivatives. The table above provides a breakdown to credit quality of these credit derivatives.

### Derivatives designated as fair value hedges

Aegon's fair value hedges consist mainly of interest rate swaps, swaptions, equity and fixed income total return swaps, equity options, equity futures, bond futures and variance swaps that are used to protect against changes in the fair value of interest rate and equity sensitive instruments or liabilities. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result.

Aegon has entered into interest rate swap agreements that effectively convert certain fixed-rate assets and liabilities to a floating-rate basis (generally to six months or less LIBOR). These hedges are used for portfolio management to better match assets to liabilities or to protect the value of the hedged item from interest rate movements. These agreements involve the payment or receipt of fixed-rate interest amounts in exchange for floating-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. Some of the arrangements use forward starting swaps to better match the duration of assets and liabilities.

Aegon has entered into cross-currency interest rate swap agreements that effectively convert certain foreign currency fixed-rate and floating-rate assets and liabilities to US dollar floating-rate assets and liabilities. These agreements involve the exchange of the underlying principal amounts.

For the years ended December 31, 2016, 2015, and 2014, Aegon recognized gains and (losses) related to the ineffectiveness portion of designated fair value hedges of EUR 26 million, EUR (17) million and EUR 45 million respectively. No portion of derivatives was excluded when assessing hedge effectiveness.

For the year ended December 31, 2016, Aegon the Netherlands recognized a negative amount of EUR 176 million (2015: EUR 98 million positive) of fair value changes on derivatives designated under fair value hedge accounting under the 'EU carve-out' in the income statement. This amount was offset by EUR 195 million positive (2015: EUR 120 million negative) fair value changes recognized on hedged items. During 2016 Aegon the Netherlands changed their risk management policy and decided to take on more interest rate risk, in order to economically offset the interest rate risk on the insurance liabilities. This has resulted in a de-designation for some of the fair value hedge accounting portfolios. The remaining base adjustment (EUR 70 million) will be amortized over the weighted average duration (7 to 9 years) of the mortgage portfolios to which hedge-accounting was applied at the date of de-designation.

### Derivatives designated as cash flow hedges

Aegon has entered primarily into interest rate swap agreements that effectively convert certain variable-rate assets and liabilities to a fixed-rate basis in order to match the cash flows of the assets and liabilities within Aegon's portfolio more closely. These agreements involve the payment or receipt of variable-rate interest amounts in exchange for fixed-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. Aegon hedges its exposure to the variability of future cash flows from the interest rate movements for terms up to 28 years for hedges converting existing floating-rate assets and liabilities to fixed-rate assets.

Aegon uses forward starting interest rate swap agreements to hedge the variability in future cash flows associated with the forecasted purchase of fixed-income assets. These agreements reduce the impact of future interest rate changes on the forecasted transaction. Fair value adjustments for these interest rate swaps are deferred and recorded in equity until the occurrence of the forecasted

transaction at which time the interest rate swaps will be terminated. The accumulated gain or loss in equity will be amortized into investment income as the acquired asset affects income. Aegon hedges its exposure to the variability of future cash flows from interest rate movements for terms up to 27 years. The cash flows from these hedging instruments are expected to affect the profit and loss for approximately the next 36 years. For the year ended December 31, 2016, the contracts for which cash flow hedge accounting was terminated resulted in deferred gains of EUR 407 million (2015: EUR 388 million) that are recognized directly in equity to be reclassified into net income during the period when the cash flows occur of the underlying hedged items. During the year ended December 31, 2016, none of Aegon's cash flow hedges were discontinued, as it was highly probable that the original forecasted transactions would occur by the end of the originally specified time period documented at the inception of the hedging relationship. Aegon projects investment needs many years into the future in order to support the insurance liabilities and pay all contractual obligations arising from the policies in force today.

In addition, Aegon also makes use of cross currency swaps to convert variable or fixed foreign currency cash flows into fixed cash flows in local currencies. The cash flows from these hedging instruments are expected to occur over the next 20 years. These agreements involve the exchange of the underlying principal amounts.

For the year ended December 31, 2016, Aegon recognized a gain of EUR 5 million of hedge ineffectiveness on cash flow hedges (2015: EUR 4 million gain; 2014: EUR 8 million loss). In 2016, EUR 37 million loss was reclassified from equity into investment income (2015: EUR 13 million loss, 2014: EUR 1 million loss). The amount of deferred gains or losses to be reclassified from equity into net income during the next 12 months is expected to be EUR 66 million gain.

The periods when the cash flows are expected to occur are as follows:

| | < 1 year | 1 – 5 years | 5 – 10 years | > 10 years | **2016 Total** |
|---|---|---|---|---|---|
| Cash inflows | 319 | 1,326 | 888 | 8,338 | 10,870 |
| Cash outflows | - | 1 | 4 | - | 5 |
| **Net cash flows** | **318** | **1,325** | **883** | **8,338** | **10,864** |

| | < 1 year | 1 – 5 years | 5 – 10 years | > 10 years | 2015 Total |
|---|---|---|---|---|---|
| Cash inflows | 481 | 1,647 | 1,395 | 6,394 | 9,917 |
| Cash outflows | - | 1 | 1 | 3 | 5 |
| **Net cash flows** | **481** | **1,646** | **1,394** | **6,390** | **9,911** |

### Net foreign investment hedges

Aegon funds its investments in insurance subsidiaries with a mixture of debt and equity. Aegon aims to denominate debt funding in the same currency as the functional currency of the investment. Investments outside the eurozone, the United States and the United Kingdom are funded in euros. When the debt funding of investments is not in the functional currency of the investment, Aegon uses derivatives to swap the currency exposure of the debt instrument to the appropriate functional currency. This policy will ensure that total capital will reflect currency movements without distorting debt to shareholders' equity ratios. Aegon utilizes various financial instruments as designated hedging instruments of its foreign investments. These instruments include long-term and short-term borrowings, short-term debts to credit institutions, cross currency swap contracts and forward foreign exchange contracts.

## 26 Investments in joint ventures

| | **2016** | 2015 |
|---|---|---|
| At January 1 | 1,561 | 1,468 |
| Additions | 92 | 38 |
| Share in net income | 137 | 142 |
| Share in changes in joint ventures equity (note 32.6) | 9 | (8) |
| Impairment losses | - | (21) |
| Dividend | (196) | (68) |
| Net exchange difference | (4) | 10 |
| Other | 15 | - |
| **At December 31** | **1,614** | **1,561** |

All joint ventures are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in joint ventures include interest in insurance companies that are required to maintain a minimum solvency margin based on local directives. Such restrictions can affect the ability of these joint ventures to transfer funds in the form of cash dividends, or repayment of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future. Refer to note 48 Commitments and contingencies for any commitments and contingencies related to investments in joint ventures. There are no unrecognized shares of losses in joint ventures. The financial statements of the principal joint ventures have the same reporting date as the Group. Refer to note 52 Group companies for a listing of the investments in joint ventures and the Group's percentage holding.

### Summarized financial information of joint ventures

The summarized financial information presented in the following table presents the joint ventures on a 100% basis. Aegon considers its investment in AMVEST Vastgoed B.V. (AMVEST) a material joint venture and is therefore presented separately.

| | AMVEST | | Other Joint ventures | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Summarized statement of financial position** | | | | |
| Cash and cash equivalents | 135 | 176 | 373 | 353 |
| Other current assets | 237 | 206 | 737 | 817 |
| **Total current assets** | **372** | **382** | **1,110** | **1,170** |
| Non-current assets | 2,519 | 2,070 | 6,375 | 5,568 |
| **Total assets** | **2,891** | **2,452** | **7,485** | **6,738** |
| Current financial liabilities excluding trade payables and other provisions | - | - | 60 | 5 |
| Other current liabilities | 149 | 138 | 403 | 642 |
| **Total current liabilities** | **149** | **138** | **464** | **647** |
| Non-current financial liabilities excluding trade payables and other provisions | 476 | 426 | 292 | 154 |
| Other non-current liabilities | - | - | 5,721 | 4,911 |
| **Total non-current financial liabilities** | **476** | **426** | **6,013** | **5,064** |
| **Total liabilities** | **625** | **564** | **6,477** | **5,711** |
| **Net assets** | **2,266** | **1,888** | **1,009** | **1,026** |
| **Summarized statement of comprehensive income** | | | | |
| Revenue | 86 | 78 | 1,248 | 1,214 |
| Results from financial transactions | 205 | 133 | 1 | (43) |
| Depreciation and amortization | - | - | (12) | (11) |
| Interest income | - | - | 48 | 57 |
| Interest expense | (7) | (10) | (3) | (15) |
| Profit or loss | 275 | 183 | 122 | 192 |
| Income tax (expense) or income | (10) | (1) | (47) | (53) |
| **Post-tax profit or (loss)** | **266** | **182** | **75** | **140** |
| Other comprehensive income | 7 | 5 | 13 | (25) |
| **Total comprehensive income** | **273** | **187** | **89** | **114** |
| Dividends received | 95 | 43 | 101 | 25 |

A reconciliation of the summarized financial information to the carrying amount of the joint ventures is as follows:

| | AMVEST | | Other Joint ventures | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Net assets of joint venture as presented above | 2,266 | 1,888 | 1,009 | 1,026 |
| Net assets of joint venture excluding goodwill | 2,266 | 1,888 | 626 | 663 |
| Group share of net assets of joint venture, excluding goodwill | 877 | 837 | 338 | 358 |
| Goodwill on acquisition | - | - | 383 | 363 |
| **Carrying amount** | **877** | **837** | **721** | **721** |

The following table includes the summarized financial information of the joint ventures based on the Group's relative holding.

| | AMVEST | | Other Joint ventures | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Post-tax profit or loss | 106 | 76 | 28 | 66 |
| Other comprehensive income | 2 | 2 | 7 | (10) |
| **Total comprehensive income** | **108** | **78** | **34** | **56** |

## 27 Investments in associates

| | **2016** | 2015 |
|---|---|---|
| At January 1 | 242 | 140 |
| Additions | 20 | 138 |
| Disposals | (4) | (15) |
| Share in net income | 3 | 5 |
| Share in changes in associate's equity (note 32.6) | 3 | (1) |
| Dividend | (7) | (8) |
| Net exchange difference | 13 | (19) |
| **At December 31** | **270** | **242** |

All associates are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in associates include interest in insurance companies that are required to maintain a minimum solvency margin based on local directives. Such restrictions can affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future. There are no unrecognized shares of losses in associates. The financial statements of the principal associates have the same reporting date as the Group. Refer to note 52 Group companies for a listing of the investments in associates and the Group's percentage holding.

### La Banque Postale

On June 4, 2015 Aegon completed a strategic asset management partnership with La Banque Postale. Under the terms of the agreement, Aegon has acquired a 25% stake in La Banque Postale Asset Management (LBPAM) for a consideration of EUR 117 million.

### La Mondiale Participations

On March 3, 2015, Aegon completed the sale of its 35% share in La Mondiale Participations following the granting of approval by the French Competition Authority (Autorité de la Concurrence). The agreement to sell Aegon's stake in La Mondiale Participations to La Mondiale for EUR 350 million was announced on November 24, 2014. Proceeds from the sale were added to Aegon's excess capital buffer.

## Summarized financial information of associates

| | 2016 | 2015 |
|---|---|---|
| Post-tax profit or loss | 3 | 5 |
| Other comprehensive income | 3 | (1) |
| **Total comprehensive income** | **7** | **5** |
| Carrying amount | 270 | 242 |

The summarized financial information of associates presented above is based on the Group's relative holding.

## 28 Reinsurance assets

| **Assets arising from reinsurance contracts related to:** | 2016 | 2015 |
|---|---|---|
| Life insurance general account | 9,714 | 9,677 |
| Life insurance for account of policyholders | 2 | 64 |
| Non-life insurance | 1,481 | 1,503 |
| Investment contracts | 11 | 12 |
| **At December 31** | **11,208** | **11,257** |

Amounts due from reinsurers in respect of claims already paid by the Group are included in note 30 Other assets and receivables.

Of the reinsurance assets EUR 15 million is current (2015: EUR 18 million).

| **Movements during the year in reinsurance assets relating to life insurance:** | Life insurance general account | Life insurance for account of policyholders | Total life insurance |
|---|---|---|---|
| At January 1, 2016 | 9,677 | 64 | 9,741 |
| Gross premium and deposits – existing and new business | 13,108 | 897 | 14,005 |
| Unwind of discount / interest credited | 783 | 23 | 806 |
| Insurance liabilities released | (5,965) | 15 | (5,950) |
| Fund charges released | (11) | - | (11) |
| Changes to valuation of expected future benefits | 38 | - | 38 |
| Policy transfers | (14) | - | (14) |
| Net exchange differences | 183 | (6) | 177 |
| Transfers to disposal groups | (8,085) | (991) | (9,076) |
| **At December 31, 2016** | **9,714** | **2** | **9,716** |
| At January 1, 2015 | 8,184 | 99 | 8,283 |
| Gross premium and deposits – existing and new business | 2,257 | 67 | 2,325 |
| Unwind of discount / interest credited | 373 | 4 | 377 |
| Insurance liabilities released | (2,748) | (112) | (2,860) |
| Fund charges released | (10) | - | (10) |
| Changes to valuation of expected future benefits | 23 | - | 23 |
| Policy transfers | 647 | - | 647 |
| Net exchange differences | 910 | 6 | 916 |
| Other movements | 40 | - | 40 |
| **At December 31, 2015** | **9,677** | **64** | **9,741** |

| Movements during the year in reinsurance assets relating to non-life insurance: | 2016 | 2015 |
|---|---|---|
| At January 1 | 1,503 | 1,297 |
| Gross premium and deposits – existing and new business | 111 | 126 |
| Unwind of discount / interest credited | 89 | 80 |
| Insurance liabilities released | (148) | (110) |
| Changes to valuation of expected future benefits | (57) | 1 |
| Changes in unearned premiums | (37) | (44) |
| Incurred related to current year | 66 | 77 |
| Incurred related to prior years | 30 | 41 |
| Release for claims settled current year | (12) | (8) |
| Release for claims settled prior years | (117) | (88) |
| Change in IBNR | (2) | (5) |
| Shadow accounting adjustment | 19 | - |
| Net exchange differences | 41 | 147 |
| Other movements | (5) | (10) |
| **At December 31** | **1,481** | **1,503** |

| Assets arising from reinsurance contracts related to: | 2016 | 2015 |
|---|---|---|
| Normal course of business | 7,609 | 7,849 |
| Exit of a business | 3,599 | 3,408 |
| **At December 31** | **11,208** | **11,257** |

The assets arising from reinsurance contracts related to the exit of a business per December 31, 2016 and 2015 relate to the sale of Aegon's life reinsurance business from Transamerica Reinsurance (TARe) to SCOR, completed on August 9, 2011. The divestment of TARe consists of a series of reinsurance agreements between various statutory insurance entities and SCOR for the US domestic business.

Furthermore, in 2016, Aegon entered into several reinsurance agreements as part of the sale of the Aegon UK annuity portfolio. At December 31, 2016 the reinsurance asset linked to the sale is reported as part of note 22 Assets and liabilities held for sale. For disclosure of the immediate loss recognized in the consolidated income statement and more details on the transaction, refer to note 17 Other charges and note 51 Business combinations, respectively.

## 29 Deferred expenses

| | 2016 | 2015 |
|---|---|---|
| DPAC for insurance contracts and investment contracts with discretionary participation features | 10,882 | 10,457 |
| Deferred cost of reinsurance | 60 | 72 |
| Deferred transaction costs for investment management services | 481 | 467 |
| **At December 31** | **11,423** | **10,997** |
| | | |
| Current | 1,080 | 990 |
| Non-current | 10,343 | 10,007 |

| | DPAC | Deferred costs of reinsurance | Deferred transaction costs |
|---|---|---|---|
| At January 1, 2016 | 10,457 | 72 | 467 |
| Costs deferred during the year | 1,157 | - | 46 |
| Disposal of group assets | (9) | - | - |
| Amortization through income statement | (837) | (14) | (28) |
| Shadow accounting adjustments | 38 | - | - |
| Impairments | (31) | - | - |
| Net exchange differences | 119 | 1 | (3) |
| Other | (12) | - | - |
| **At December 31, 2016** | **10,882** | **60** | **481** |

| | DPAC | Deferred costs of reinsurance | Deferred transaction costs |
|---|---|---|---|
| At January 1, 2015 | 9,523 | 86 | 409 |
| Costs deferred during the year | 1,485 | - | 48 |
| Disposal of group assets | (34) | - | - |
| Amortization through income statement | (1,055) | (23) | (30) |
| Shadow accounting adjustments | 664 | - | - |
| Impairment losses | (1,083) | - | - |
| Net exchange differences | 957 | 9 | 40 |
| **At December 31, 2015** | **10,457** | **72** | **467** |

In the following table a breakdown is provided of DPAC balances by line of business and reporting segment:

| | Americas | The Netherlands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Management | Holdings and other activities | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | |
| Life | 6,674 | 25 | 156 | 71 | 1 | *253* | 740 | - | - | 7,668 |
| Individual savings and retirement products | 1,911 | - | - | - | - | - | - | - | - | 1,911 |
| Pensions | - | 59 | 839 | - | - | *898* | - | - | - | 899 |
| Run-off business | 312 | - | - | - | - | - | - | - | - | 312 |
| Non-life | - | - | - | - | - | - | 92 | - | - | 92 |
| **At December 31** | **8,898** | **84** | **996** | **71** | **1** | ***1,152*** | **832** | **-** | **-** | **10,882** |
| **2015** | | | | | | | | | | |
| Life | 6,010 | 34 | 163 | 84 | 1 | *282* | 745 | - | 9 | 7,046 |
| Individual savings and retirement products | 1,924 | - | - | - | - | - | - | - | - | 1,924 |
| Pensions | - | 63 | 1,101 | - | - | *1,164* | - | - | - | 1,164 |
| Run-off business | 323 | - | - | - | - | - | - | - | - | 323 |
| **At December 31** | **8,258** | **97** | **1,264** | **84** | **1** | ***1,446*** | **745** | **-** | **9** | **10,457** |

## 30 Other assets and receivables

| | Note | 2016 | 2015 |
|---|---|---|---|
| Real estate held for own use and equipment | 30.1 | 572 | 575 |
| Receivables | 30.2 | 8,530 | 5,195 |
| Accrued income | 30.3 | 1,565 | 1,779 |
| **At December 31** | | **10,667** | **7,549** |

### 30.1 Real estate held for own use and equipment

| **Net book value** | General account real estate held for own use | Equipment | Total |
|---|---|---|---|
| At January 1, 2015 | 293 | 216 | 509 |
| At December 31, 2015 | 338 | 237 | 575 |
| **At December 31, 2016** | **332** | **241** | **572** |
| **Cost** | | | |
| At January 1, 2016 | 442 | 544 | 986 |
| Additions | 8 | 58 | 67 |
| Capitalized subsequent expenditure | 2 | - | 2 |
| Disposals | (1) | (11) | (12) |
| Unrealized gains/(losses) through equity | 8 | - | 8 |
| Transfers to investments in real estate | (15) | - | (15) |
| Net exchange differences | 8 | 2 | 10 |
| **At December 31, 2016** | **453** | **593** | **1,046** |
| **Accumulated depreciation and impairment losses** | | | |
| At January 1, 2016 | 104 | 307 | 411 |
| Depreciation through income statement | 9 | 54 | 63 |
| Disposals | - | (9) | (9) |
| Impairment losses | 7 | - | 7 |
| Net exchange differences | 2 | - | 2 |
| **At December 31, 2016** | **121** | **352** | **474** |
| **Cost** | | | |
| At January 1, 2015 | 384 | 485 | 869 |
| Additions | 15 | 73 | 87 |
| Capitalized subsequent expenditure | 3 | - | 3 |
| Disposals | - | (30) | (30) |
| Unrealized gains/(losses) through equity | 8 | - | 8 |
| Net exchange differences | 25 | 26 | 50 |
| Other | 10 | (10) | - |
| **At December 31, 2015** | **442** | **544** | **986** |
| **Accumulated depreciation and impairment losses** | | | |
| At January 1, 2015 | 91 | 269 | 360 |
| Depreciation through income statement | 8 | 50 | 57 |
| Disposals | - | (22) | (22) |
| Net exchange differences | 6 | 12 | 18 |
| Other | 1 | (1) | - |
| **At December 31, 2015** | **104** | **307** | **411** |

General account real estate held for own use are mainly held by Aegon USA and Aegon the Netherlands, with relatively smaller holdings at Aegon Hungary and Aegon Spain. The carrying value under a historical cost model amounted to EUR 350 million (2015: EUR 358 million).

35% of the value of the general account real estate held for own use was last revalued in 2016 (2015: 43%), based on market value appraisals by qualified internal and external appraisers. 97% of the appraisals in 2016 were performed by independent external appraisers (2015: 98%).

General account real estate held for own use has not been pledged as security for liabilities, nor are there any restrictions on title. Depreciation expenses are recorded in Commissions and expenses in the income statement. The useful lives of buildings range between 40 and 50 years.

None of the equipment is held for lease (2015: none). Equipment has not been pledged as security for liabilities, nor are there any restrictions on title. Depreciation expenses have been recorded in Commissions and expenses in the income statement. Equipment is generally depreciated over a period of three to five years.

### 30.2 Receivables

| | **2016** | 2015 |
|---|---|---|
| Loans to associates | 2 | - |
| Loans to joint ventures | 7 | - |
| Finance lease assets | - | 9 |
| Receivables from policyholders | 3,896 | 1,291 |
| Receivables from brokers and agents | 272 | 286 |
| Receivables from reinsurers | 211 | 209 |
| Cash outstanding from assets sold | 46 | 36 |
| Trade receivables | 621 | 1,001 |
| Cash collateral | 1,312 | 215 |
| Reverse repurchase agreements | 77 | 778 |
| Income tax receivable | 477 | 321 |
| Other | 1,689 | 1,155 |
| Provision for doubtful debts | (79) | (107) |
| **At December 31** | **8,530** | **5,195** |
| Current | 8,487 | 5,162 |
| Non-current | 44 | 33 |

The increase in receivables from policyholders compared to prior year is driven by a change in netting. This also affected other liabilities (refer to note 44 Other liabilities).

The movements in the provision for doubtful debts during the year were as follows:

| | **2016** | 2015 |
|---|---|---|
| At January 1 | (107) | (115) |
| Additions charged to earnings | (5) | (14) |
| Unused amounts reversed through the income statement | 7 | 12 |
| Used during the year | 26 | 13 |
| Net exchange differences | - | (3) |
| **At December 31** | **(79)** | **(107)** |

### 30.3 Accrued income

| | **2016** | 2015 |
|---|---|---|
| Accrued interest | 1,543 | 1,760 |
| Other | 22 | 19 |
| **At December 31** | **1,565** | **1,779** |

Of accrued income EUR 1,547 million is current (2015: EUR 1,761 million).

## 31 Intangible assets

| Net book value | Goodwill | VOBA | Future servicing rights | Software | Other | Total |
|---|---|---|---|---|---|---|
| At January 1, 2015 | 216 | 1,546 | 255 | 50 | 5 | 2,073 |
| At December 31, 2015 | 299 | 1,472 | 57 | 61 | 12 | 1,901 |
| **At December 31, 2016** | **294** | **1,399** | **64** | **50** | **12** | **1,820** |
| **Cost** | | | | | | |
| At January 1, 2016 | 507 | 7,462 | 314 | 381 | 105 | 8,769 |
| Additions | - | 2 | - | 16 | 3 | 21 |
| Acquisitions through business combinations | (8) | - | 12 | - | - | 4 |
| Capitalized subsequent expenditure | - | - | - | 3 | - | 3 |
| Disposals | - | - | - | (3) | - | (3) |
| Net exchange differences | 4 | 112 | 1 | (35) | 1 | 83 |
| **At December 31, 2016** | **503** | **7,576** | **327** | **362** | **109** | **8,876** |
| **Accumulated amortization, depreciation and impairment losses** | | | | | | |
| At January 1, 2016 | 208 | 5,990 | 257 | 320 | 93 | 6,868 |
| Amortization through income statement | - | 178 | 6 | 25 | 2 | 211 |
| Shadow accounting adjustments | - | (89) | - | - | - | (89) |
| Disposals | - | - | - | (3) | - | (3) |
| Net exchange differences | - | 98 | (1) | (30) | 2 | 69 |
| **At December 31, 2016** | **209** | **6,177** | **263** | **311** | **97** | **7,056** |
| **Cost** | | | | | | |
| At January 1, 2015 | 412 | 6,757 | 657 | 336 | 80 | 8,242 |
| Additions | - | 2 | - | 33 | 17 | 52 |
| Acquisitions through business combinations | 66 | - | 5 | - | - | 71 |
| Capitalized subsequent expenditure | - | - | - | 2 | - | 2 |
| Disposals | - | - | (398) | (1) | - | (399) |
| Net exchange differences | 28 | 703 | 49 | 11 | 9 | 801 |
| **At December 31, 2015** | **507** | **7,462** | **314** | **381** | **105** | **8,769** |
| **Accumulated amortization, depreciation and impairment losses** | | | | | | |
| At January 1, 2015 | 197 | 5,211 | 402 | 285 | 75 | 6,169 |
| Amortization through income statement | - | 139 | 12 | 26 | 1 | 178 |
| Shadow accounting adjustments | - | (102) | - | - | - | (102) |
| Disposals | - | - | (184) | (1) | - | (185) |
| Impairment losses | - | 191 | - | - | 9 | 200 |
| Net exchange differences | 12 | 552 | 27 | 10 | 8 | 608 |
| **At December 31, 2015** | **208** | **5,990** | **257** | **320** | **93** | **6,868** |

Amortization and depreciation through income statement is included in Commissions and expenses. None of the intangible assets have titles that are restricted or have been pledged as security for liabilities.

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. VOBA and future servicing rights are amortized over the term of the related insurance contracts, which can vary significantly depending on the maturity of the acquired portfolio. VOBA currently recognized is amortized over an average period of 24 years, with an average remaining amortization period of 8 years (2015: 11 years). Future servicing rights are amortized over an average period up to 30 years, of which 9 years remain at December 31, 2016 (2015: 10 years). Software is generally depreciated over an average period of 5 years. At December 31, 2016, the remaining average amortization period was 3 years (2015: 3 years).

In 2015, impairment losses include a charge of EUR 191 million resulting from the premium deficiency due to the restructuring of the business and operations in the UK.

## Goodwill

The goodwill balance has been allocated across the cash-generating units which are expected to benefit from the synergies inherent in the goodwill. Goodwill is tested for impairment both annually and when there are specific indicators of a potential impairment. The recoverable amount is the higher of the value in use and fair value less costs of disposal for a cash-generating unit. The operating assumptions used in all the calculations are best estimate assumptions and based on historical data where available.

The economic assumptions used in all the calculations are based on observable market data and projections of future trends. All the cash-generating units tested showed that the recoverable amounts were higher than their carrying values, including goodwill. A reasonably possible change in any key assumption is not expected to cause the carrying value of the cash-generating units to exceed its recoverable amount.

A geographical summary of the cash-generating units to which the goodwill is allocated is as follows:

| **Goodwill** | **2016** | 2015 |
|---|---|---|
| Americas | 198 | 202 |
| Central & Eastern Europe | 36 | 39 |
| Asset Management | 36 | 35 |
| The Netherlands | 25 | 23 |
| **At December 31** | **294** | **299** |

To reflect the restructuring of the business, goodwill in Aegon USA is allocated to a group of cash-generating units including variable annuities and fixed annuities and the retirement plans cash-generating unit. Value in use calculations of Aegon USA have been actuarially determined based on business plans covering a period of typically three years and pre-tax risk adjusted discount rates. The value in use tests in the USA for the group of annuities cash-generating units (EUR 131 million; 2015: EUR 134 million) and the retirement plans cash-generating unit (EUR 57 million; 2015: EUR 66 million) assume business plans covering a period of three years further extrapolated to ten years where the new business levels for years 4-10 assumed a 0% growth rate (2015: 5%). The pre-tax adjusted discount rate was 17% for annuities and 18% for retirement plans as determined at date of acquisition.

To determine the recoverable amounts of the cash generating units of Aegon Central & Eastern Europe (CEE), value in use was calculated, and compared to the carrying amounts. Value in use has been determined based on a business plan covering a period of typically 5 years, that, in certain instances was further extrapolated to 20 years where the new business levels for years 6-20 assumed a growth rate based on the business plan of the fifth year, prudentially decreased by 20% (2015: 20%-40%). Other key assumptions used for the calculation were pre-tax risk adjusted discount rate of 7.4%-15.9% (2015: 8.4%-16.4%), new business contribution, renewals, asset fees, investment return, persistency and expenses. Operating assumptions are best estimate assumptions and based on historical data where available. Economic assumptions are based on observable market data and projections of future trends.

Following the acquisition of Mercer, goodwill was recognized in 2015 for an amount of EUR 66 million reflecting the expected profitability of new business.

## VOBA

The movement in VOBA over 2016 can be summarized and compared to 2015 as follows:

| | **2016** | 2015 |
|---|---|---|
| At January 1 | 1,472 | 1,546 |
| Additions | 2 | 2 |
| Amortization / depreciation through income statement | (178) | (139) |
| Shadow accounting adjustments | 89 | 102 |
| Impairment losses | - | (191) |
| Net exchange differences | 14 | 153 |
| **At December 31** | **1,399** | **1,472** |

A geographical summary of the lines of business to which the VOBA is allocated is as follows:

| VOBA | Americas | The Nether-lands | United Kingdom | Central & Eastern Europe | Spain & Portugal | *Europe* | Asia | Asset Manage-ment | Total |
|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | |
| Life | 1,028 | - | - | - | - | - | 10 | - | 1,038 |
| Individual savings and retirement products | 181 | - | - | - | - | - | - | - | 181 |
| Pensions | 10 | 22 | 118 | - | - | *140* | - | - | 149 |
| Distribution | - | 8 | - | - | - | *8* | - | - | 8 |
| Run-off businesses | 23 | - | - | - | - | - | - | - | 23 |
| **Total VOBA** | **1,242** | **30** | **118** | **-** | **-** | ***148*** | **10** | **-** | **1,399** |
| **2015** | | | | | | | | | |
| Life | 1,036 | - | - | - | - | - | 10 | - | 1,046 |
| Individual savings and retirement products | 189 | - | - | - | - | - | - | - | 189 |
| Pensions | 11 | 27 | 159 | - | - | *186* | - | - | 197 |
| Distribution | - | 10 | - | - | - | *10* | - | - | 10 |
| Run-off businesses | 31 | - | - | - | - | - | - | - | 31 |
| **Total VOBA** | **1,267** | **36** | **159** | **-** | **-** | ***195*** | **10** | **-** | **1,472** |

## 32 Shareholders' equity

Issued share capital and reserves attributable to shareholders of Aegon N.V.

| | Note | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Share capital – par value | **32.1** | 319 | 328 | 327 |
| Share premium | **32.2** | 7,873 | 8,059 | 8,270 |
| **Total share capital** | | **8,193** | **8,387** | **8,597** |
| Retained earnings | | 8,002 | 8,344 | 9,294 |
| Treasury shares | **32.3** | (190) | (269) | (319) |
| **Total retained earnings** | | **7,812** | **8,075** | **8,975** |
| Revaluation reserves | **32.4** | 5,381 | 6,471 | 8,308 |
| Remeasurement of defined benefit plans | **32.5** | (1,820) | (1,532) | (1,611) |
| Other reserves | **32.6** | 1,347 | 1,283 | (86) |
| **Total shareholders' equity** | | **20,913** | **22,684** | **24,183** |

In June 2016, Aegon distributed to its shareholders who elected stock dividend a total number of 29,258,662 common shares in respect to the final dividend for 2015. This stock dividend distribution was paid from treasury shares (note 32.3 Treasury shares) and with the issuance of 9,121,989 common shares with a par value of EUR 0.12.

In September 2016, Aegon distributed to its shareholders 30,765,224 common shares as interim dividend 2016 in the form of stock. This stock dividend distribution was paid from treasury shares (note 32.3 Treasury shares) and with the issuance of 1,506,562 common shares with a par value of EUR 0.12.

In 2016, following each distribution of stock dividend, Aegon completed a share buyback program to neutralize the dilutive effect of the 2015 final dividend and 2016 interim dividend paid in shares, and repurchased a total of 60,023,886 common shares.

Aegon also executed a EUR 400 million share buyback program in which 83,116,535 common shares were repurchased. These common shares have been repurchased as part of a program to neutralize the dilutive effect of the cancellation of the preferred shares in 2013. All 83,116,535 common shares repurchased under this program were cancelled in September 2016.

Furthermore, in June 2016, Aegon repurchased 17,324,960 common shares B from Vereniging Aegon to keep the voting rights of Vereniging Aegon on the agreed level.

In June 2015, Aegon distributed to its shareholders who elected stock dividend a total number of 16,279,933 common shares in respect to the final dividend for 2014. This stock dividend distribution was fully paid from treasury shares (note 32.3 Treasury shares).

In September 2015, Aegon distributed to its shareholders 20,136,673 common shares as interim dividend 2015 in the form of stock. This stock dividend distribution was paid from 19,047,358 treasury shares (note 32.3 Treasury shares) and with the issuance of 1,089,315 common shares with a par value of EUR 0.12.

In 2015, following each distribution of stock dividend, Aegon completed a share buyback program to neutralize the dilutive effect of the 2014 final dividend and 2015 interim dividend paid in shares, and repurchased a total of 36,416,606 common shares.

Furthermore, in 2015, Aegon issued a total of 3,696,440 common shares B with a par value of EUR 0.12 to compensate for the dilution of Vereniging Aegon's shareholding caused by the issuance of shares on January 1, 2015 and May 21, 2015, in connection with the Long Term Incentive Plans for senior management.

In 2014, Aegon issued 14,488,648 common shares with a par value of EUR 0.12 in respect of the final dividend for 2013 which was paid in June 2014. In September 2014, Aegon distributed to its shareholders 16,319,939 common shares as interim dividend 2014 in the form of stock. This last stock dividend distribution was paid from treasury shares (note 32.3 Treasury shares) and no common shares were issued as a result. In 2014, following each distribution of stock dividend, Aegon completed a share buyback program to neutralize the dilutive effect of the 2013 final dividend and 2014 interim dividend paid in shares, and repurchased a total of 30,808,587 common shares.

Furthermore, in 2014, Aegon issued 2,320,280 common shares B with a par value of EUR 0.12 to compensate for the dilution of Vereniging Aegon's shareholding caused by the issuance of shares on May 21, 2014, in connection with the Long Term Incentive Plans for senior management.

### 32.1 Share capital – par value

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Common shares | 249 | 258 | 258 |
| Common shares B | 70 | 70 | 70 |
| **At December 31** | **319** | **328** | **327** |

| **Common shares** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Authorized share capital | 720 | 720 | 720 |
| Number of authorized shares (in million) | 6,000 | 6,000 | 6,000 |
| Par value in cents per share | 12 | 12 | 12 |

| **Common shares B** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Authorized share capital | 360 | 360 | 360 |
| Number of authorized shares (in million) | 3,000 | 3,000 | 3,000 |
| Par value in cents per share | 12 | 12 | 12 |

| | Common shares | | Common shares B | |
|---|---|---|---|---|
| | Number of shares (thousands) | Total amount | Number of shares (thousands) | Total amount |
| **At January 1, 2014** | **2,131,459** | **256** | **579,005** | **69** |
| Shares issued | - | - | 2,320 | - |
| Dividend | 14,489 | 2 | - | - |
| **At December 31, 2014** | **2,145,948** | **258** | **581,326** | **70** |
| Shares issued | - | - | 3,696 | - |
| Dividend | 1,089 | - | - | - |
| **At December 31, 2015** | **2,147,037** | **258** | **585,022** | **70** |
| Dividend | 10,629 | 1 | - | - |
| Shares withdrawn | (83,117) | (10) | - | - |
| **At December 31, 2016** | **2,074,549** | **249** | **585,022** | **70** |

| | Weighted average number of common shares (thousands) | Weighted average number of common shares B (thousands) |
|---|---|---|
| **2014** | **2,139,160** | **580,391** |
| **2015** | **2,146,261** | **583,608** |
| **2016** | **2,129,074** | **585,022** |

All issued common shares and common shares B each have a nominal value of EUR 0.12 and are fully paid up. Repayment of capital can only be initiated by the Executive Board, is subject to approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on common shares B needs approval of the related shareholders. Refer to 'Other information' for further information on dividend rights.

Vereniging Aegon, based in The Hague, the Netherlands, holds all of the issued and outstanding common shares B.

Under the terms of the 1983 Amended Merger Agreement, dated May 2013, Vereniging Aegon has a call option relating to common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake at 32.6%, irrespective of the circumstances which cause the total shareholding to be or become lower than 32.6%.

### 32.2 Share premium

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| At January 1 | 8,059 | 8,270 | 8,375 |
| Share dividend | (186) | (211) | (106) |
| **At December 31** | **7,873** | **8,059** | **8,270** |
| Share premium relating to: | | | |
| - Common shares | 6,220 | 6,406 | 6,617 |
| - Common shares B | 1,653 | 1,653 | 1,653 |
| **Total share premium** | **7,873** | **8,059** | **8,270** |

The share premium account reflects the balance of paid-in amounts above par value at issuance of new shares less the amounts charged for share dividends.

### 32.3 Treasury shares

On the reporting date, Aegon N.V. and its subsidiaries held 48,780,045 (2015: 44,531,558) of its own common shares and 17,324,960 (2015: nil) own common shares B with a par value of EUR 0.12 each.

Movements in the number of treasury common shares of Aegon N.V. were as follows:

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | **Number of shares (thousands)** | **Amount** | Number of shares (thousands) | Amount | Number of shares (thousands) | Amount |
| At January 1 | 42,998 | 257 | 49,537 | 306 | 39,837 | 278 |
| **Transactions in 2016:** | | | | | | |
| Purchase: transactions, average price EUR 4.81 | 83,117 | 400 | | | | |
| Sale: transactions, price average EUR 6.49 | (6,153) | (40) | | | | |
| Sale: 1 transaction, price EUR 6.38 | (20,137) | (129) | | | | |
| Purchase: transactions, average price EUR 3.51 | 29,259 | 103 | | | | |
| Sale: 1 transaction, price EUR 5.11 | (29,259) | (150) | | | | |
| Shares withdrawn: 1 transaction, price EUR 4.60 | (83,117) | (382) | | | | |
| Purchase: transactions, average price EUR 3.84 | 30,765 | 118 | | | | |
| **Transactions in 2015:** | | | | | | |
| Sale: 1 transaction, price EUR 7.24 | | | (7,628) | (47) | | |
| Sale: 1 transaction, price EUR 6.62 | | | (16,280) | (93) | | |
| Purchase: transactions, average price EUR 6.63 | | | 16,280 | 108 | | |
| Sale: 1 transaction, price EUR 5.40 | | | (19,047) | (123) | | |
| Purchase: transactions, average price EUR 5.28 | | | 20,137 | 106 | | |
| **Transactions in 2014:** | | | | | | |
| Sale: 1 transaction, price EUR 6.33 | | | | | (4,788) | (41) |
| Purchase: transactions, average price EUR 6.43 | | | | | 14,489 | 93 |
| Sale: 1 transaction, price EUR 6.37 | | | | | (16,320) | (129) |
| Purchase: transactions, average price EUR 6.49 | | | | | 16,320 | 106 |
| **At December 31** | **47,473** | **178** | **42,998** | **257** | **49,537** | **306** |

Furthermore Aegon repurchased 17,324,960 common shares B for EUR 0.11 each, representing a total amount of EUR 2 million.

As part of their insurance and investment operations, subsidiaries within the Group also hold Aegon N.V. common shares, both for their own account and for account of policyholders. These shares have been treated as treasury shares and are (de)recognized at the consideration paid or received.

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | **Number of shares (thousands)** | **Total amount** | Number of shares (thousands) | Total amount | Number of shares (thousands) | Total amount |
| **Common shares** | | | | | | |
| Held by Aegon N.V. | 47,473 | 178 | 42,998 | 257 | 49,537 | 306 |
| Held by subsidiaries | 1,307 | 10 | 1,534 | 12 | 1,780 | 13 |
| **Common shares B** | | | | | | |
| Held by Aegon N.V. | 17,325 | 2 | - | - | - | - |
| **At December 31** | **66,105** | **190** | **44,532** | **269** | **51,317** | **319** |

| | Weighted average number of treasury shares, including treasury shares held by subsidiaries (thousands) | Weighted average number of treasury shares B (thousands) |
|---|---|---|
| **2014** | **44,742** | **-** |
| **2015** | **45,097** | **-** |
| **2016** | **81,570** | **9,893** |

## 32.4 Revaluation reserves

| | Available-for-sale investments | Real estate held for own use | Cash flow hedging reserve | Total |
|---|---|---|---|---|
| At January 1, 2016 | 4,546 | 52 | 1,873 | 6,471 |
| Gross revaluation | 857 | 8 | (131) | 733 |
| Net (gains) / losses transferred to income statement | (2,122) | - | 78 | (2,044) |
| Foreign currency translation differences | (101) | 2 | 61 | (38) |
| Tax effect | 240 | (3) | 24 | 262 |
| Other | (2) | - | - | (2) |
| **At December 31, 2016** | **3,418** | **59** | **1,904** | **5,381** |
| At January 1, 2015 | 6,741 | 42 | 1,525 | 8,308 |
| Gross revaluation | (2,479) | 8 | 278 | (2,193) |
| Net (gains) / losses transferred to income statement | (485) | - | (13) | (498) |
| Disposal of a business | (468) | - | - | (468) |
| Foreign currency translation differences | 307 | 5 | 181 | 492 |
| Tax effect | 934 | (2) | (98) | 833 |
| Other | (3) | - | - | (3) |
| **At December 31, 2015** | **4,546** | **52** | **1,873** | **6,471** |
| At January 1, 2014 | 2,287 | 35 | 702 | 3,023 |
| Gross revaluation | 6,438 | 5 | 1,036 | 7,479 |
| Net (gains) / losses transferred to income statement | (702) | - | (12) | (714) |
| Foreign currency translation differences | 327 | 5 | 165 | 497 |
| Tax effect | (1,604) | (2) | (364) | (1,970) |
| Other | (6) | - | - | (7) |
| **At December 31, 2014** | **6,741** | **42** | **1,525** | **8,308** |

The revaluation accounts for both available-for-sale investments and for real estate held for own use include unrealized gains and losses on these investments, net of tax. Upon sale, the amounts realized are recognized in the income statement (for available-for-sale investments) or transferred to retained earnings (for real estate held for own use). Upon impairment, unrealized losses are recognized in the income statement.

The closing balances of the revaluation reserve for available-for-sale investments relate to the following instruments:

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Shares | 130 | 139 | 126 |
| Debt securities | 3,245 | 4,354 | 6,549 |
| Other | 43 | 53 | 66 |
| **Revaluation reserve for available-for-sale investments** | **3,418** | **4,546** | **6,741** |

The cash flow hedging reserve includes (un)realized gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the hedged cash flow. No amounts have been released from equity to be included in the initial measurement of non-financial assets or liabilities.

## 32.5 Remeasurement of defined benefit plans

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| At January 1 | (1,532) | (1,611) | (706) |
| Remeasurements of defined benefit plans | (392) | 234 | (1,156) |
| Tax effect | 89 | (75) | 335 |
| Net exchange differences | 16 | (86) | (84) |
| Disposal of a business | - | 6 | - |
| **Total remeasurement of defined benefit plans** | **(1,820)** | **(1,532)** | **(1,611)** |

## 32.6 Other reserves

| | Foreign currency translation reserve | Net foreign investment hedging reserve | Equity movements of joint ventures and associates | Total |
|---|---|---|---|---|
| At January 1, 2016 | 1,731 | (467) | 19 | 1,283 |
| Movement in foreign currency translation and net foreign investment hedging reserves | 25 | 65 | - | 91 |
| Tax effect | (22) | (17) | - | (39) |
| Equity movements of joint ventures | - | - | 9 | 9 |
| Equity movements of associates | - | - | 3 | 3 |
| **At December 31, 2016** | **1,734** | **(418)** | **31** | **1,347** |
| At January 1, 2015 | 268 | (382) | 27 | (86) |
| Movement in foreign currency translation and net foreign investment hedging reserves | 1,687 | (181) | - | 1,505 |
| Disposal of a business | (127) | 51 | - | (76) |
| Tax effect | (98) | 45 | - | (52) |
| Equity movements of joint ventures | - | - | (8) | (8) |
| Equity movements of associates | - | - | (1) | (1) |
| **At December 31, 2015** | **1,731** | **(467)** | **19** | **1,283** |
| At January 1, 2014 | (1,588) | (214) | 28 | (1,773) |
| Movement in foreign currency translation and net foreign investment hedging reserves | 1,962 | (224) | - | 1,738 |
| Tax effect | (106) | 56 | - | (50) |
| Recycling of revaluation reserve on disposal of joint ventures and associates | - | - | (30) | (30) |
| Equity movements of joint ventures | - | - | 22 | 22 |
| Equity movements of associates | - | - | 7 | 7 |
| **At December 31, 2014** | **268** | **(382)** | **27** | **(86)** |

The foreign currency translation reserve includes the currency results from investments in non-euro denominated subsidiaries. The amounts are released to the income statement upon the sale of the subsidiary.

The net foreign investment hedging reserve is made up of gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the net foreign investment.

The equity movements of joint ventures and associates reflect Aegon's share of changes recognized directly in the joint venture's and associate's equity.

## 33 Other equity instruments

| | Junior perpetual capital securities | Perpetual cumulative subordinated bonds | Share options and incentive plans [1] | Non-cumulative subordinated notes | Total |
|---|---|---|---|---|---|
| At January 1, 2016 | 3,008 | 454 | 68 | 271 | 3,800 |
| Shares granted | - | - | 13 | - | 13 |
| Shares vested | - | - | (16) | - | (16) |
| **At December 31, 2016** | **3,008** | **454** | **65** | **271** | **3,797** |
| At January 1, 2015 | 3,008 | 454 | 94 | 271 | 3,827 |
| Shares granted / Share options cost incurred | - | - | 26 | - | 26 |
| Shares vested / Share options forfeited | - | - | (53) | - | (53) |
| **At December 31, 2015** | **3,008** | **454** | **68** | **271** | **3,800** |
| At January 1, 2014 | 4,192 | 454 | 99 | 271 | 5,015 |
| Redemption of junior perpetual capital securities | (1,184) | - | - | - | (1,184) |
| Shares granted / Share options cost incurred | - | - | 29 | - | 29 |
| Shares vested / Share options forfeited | - | - | (34) | - | (34) |
| **At December 31, 2014** | **3,008** | **454** | **94** | **271** | **3,827** |

[1] Share options and incentive plans include the shares and options granted to personnel which are not yet vested.

| **Junior perpetual capital securities** | Coupon rate | Coupon date, as of | Year of next call | **2016** | 2015 | 2014 |
|---|---|---|---|---|---|---|
| USD 500 million | 6.50% | Quarterly, December 15 | 2017 | 424 | 424 | 424 |
| USD 250 million | floating LIBOR rate [1] | Quarterly, December 15 | 2017 | 212 | 212 | 212 |
| USD 500 million | floating CMS rate [2] | Quarterly, July 15 | 2017 | 402 | 402 | 402 |
| USD 1 billion | 6.375% | Quarterly, June 15 | 2017 | 821 | 821 | 821 |
| EUR 950 million | floating DSL rate [3] | Quarterly, July 15 | 2017 | 950 | 950 | 950 |
| EUR 200 million | 6.0% | Annually, July 21 | 2017 | 200 | 200 | 200 |
| **At December 31** | | | | **3,008** | **3,008** | **3,008** |

[1] The coupon of the USD 250 million junior perpetual capital securities is reset each quarter based on the then prevailing three-month LIBOR yield plus a spread of 87.5 basis points, with a minimum of 4%.
[2] The coupon of the USD 500 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year US dollar interest rate swap yield plus a spread of ten basis points, with a maximum of 8.5%.
[3] The coupon of the EUR 950 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year Dutch government bond yield plus a spread of ten basis points, with a maximum of 8%.

The interest rate exposure on some of these securities has been swapped to a three-month LIBOR and/or EURIBOR based yield.

The securities have been issued at par. The securities have subordination provisions, rank junior to all other liabilities and senior to shareholders' equity only. The conditions of the securities contain certain provisions for optional and required coupon payment deferral and mandatory coupon payment events. Although the securities have no stated maturity, Aegon has the right to call the securities for redemption at par for the first time on the coupon date in the years as specified, or on any coupon payment date thereafter.

| **Perpetual cumulative subordinated bonds** | Coupon rate | Coupon date | Year of next call | **2016** | 2015 | 2014 |
|---|---|---|---|---|---|---|
| EUR 136 million | 5.185% [1], [4] | Annual, October 14 | 2018 | 136 | 136 | 136 |
| EUR 203 million | 4.260% [2], [4] | Annual, March 4 | 2021 | 203 | 203 | 203 |
| EUR 114 million | 1.506% [3], [4] | Annual, June 8 | 2025 | 114 | 114 | 114 |
| **At December 31** | | | | **454** | **454** | **454** |

[1] The coupon of the EUR 136 million bonds was originally set at 7.25% until October 14, 2008. Subsequently, the coupon has been reset at 5.185% until October 14, 2018.
[2] The coupon of the EUR 203 million bonds was originally set at 7.125% until March 4, 2011. Subsequently, the coupon has been reset at 4.26% until March 4, 2021.
[3] The coupon of the EUR 114 million bonds was originally set at 8% until June 8, 2005. Subsequently, the coupon has been reset at 4.156% until 2015 and 1.506% until 2025.
[4] If the bonds are not called on the respective call dates and after consecutive period of ten years, the coupons will be reset at the then prevailing effective yield of ten-year Dutch government securities plus a spread of 85 basis points.

The bonds have the same subordination provisions as dated subordinated debt. In addition, the conditions of the bonds contain provisions for interest deferral.

Although the bonds have no stated maturity, Aegon has the right to call the bonds for redemption at par for the first time on the coupon date in the year of next call.

| **Non-cumulative subordinated notes** | Coupon rate | Coupon date | Year of next call | **2016** | 2015 | 2014 |
|---|---|---|---|---|---|---|
| USD 525 million | 8% | Quarterly, February 15 | 2017 | 271 | 271 | 271 |
| **At December 31** | | | | **271** | **271** | **271** |

On February 7, 2012, Aegon issued USD 525 million in aggregate principal amount of 8.00% non-cumulative subordinated notes, due 2042, in an underwritten public offering in the United States registered with the US Securities and Exchange Commission. The subordinated notes bear interest at a fixed rate of 8.00% and have been priced at 100% of their principal amount. Any cancelled interest payments will not be cumulative.

The securities are subordinated and rank senior to the junior perpetual capital securities, equally with the perpetual cumulative subordinated bonds and fixed floating subordinated notes, and junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required cancellation of interest payments. The securities have a stated maturity of 30 years, however, Aegon has the right to call the securities for redemption at par for the first time on the first coupon date in August 2017, or on any coupon payment date thereafter.

These notes are recognized as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into an equity component and a liability component. At December 31, 2016, the equity component amounted to EUR 271 million (2015: EUR 271 million), subordinated borrowings amounted to EUR 72 million (2015: EUR 65 million) and a deferred tax liability amounting to EUR 106 million (2015: EUR 105 million).

Refer to note 34 Subordinated borrowings for details of the component classified as subordinated borrowings.

## 34 Subordinated borrowings

| | Coupon rate | Coupon date | Year of next call | **2016** | 2015 |
|---|---|---|---|---|---|
| **Fixed floating subordinated notes** | | | | | |
| EUR 700 million | 4% | Annually, April 25 | 2024 | 695 | 694 |
| **Non-cumulative subordinated notes** | | | | | |
| USD 525 million | 8% | Quarterly, February 15 | 2017 | 72 | 65 |
| **At December 31** | | | | **767** | **759** |

On April 25, 2014, Aegon issued EUR 700 million of subordinated notes, first callable on April 25, 2024, and maturing on April 25, 2044. The coupon is fixed at 4% until the first call date and floating thereafter.

These securities are subordinated and rank senior to the junior perpetual capital securities, equally with the perpetual cumulative subordinated bonds and non-cumulative subordinated notes, and junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required deferral of interest payments. There have been no defaults or breaches of conditions during the period.

Subordinated borrowings include a liability of EUR 72 million (2015: EUR 65 million) relating to the USD 525 million non-cumulative subordinated notes issued on February 7, 2012. The liability component of the non-cumulative subordinated notes is related to the redemption amount. For further information on the non-cumulative subordinated notes and their subordination refer to note 33 Other equity instruments.

## 35 Trust pass-through securities

| | Coupon rate | Coupon date | Year of issue | Year of maturity | Year of next call | 2016 | 2015 |
|---|---|---|---|---|---|---|---|
| USD 225 million [1)] | 7.65% | Semi-annually, December 1 | 1996 | 2026 | n.a. | 109 | 111 |
| USD 190 million [1)] | 7.625% | Semi-annually, November 15 | 1997 | 2037 | n.a. | 47 | 46 |
| **At December 31** | | | | | | **156** | **157** |

[1] Issued by a subsidiary of, and guaranteed by Aegon N.V.

Trust pass-through securities are securities through which the holder participates in a trust. The assets of these trusts consist of junior subordinated deferrable interest debentures issued by Transamerica Corporation. The trust pass-through securities carry provisions with regard to deferral of distributions for extension periods up to a maximum of 10 consecutive semi-annual periods. The trust pass-through securities are subordinated to all other unsubordinated borrowings and liabilities of Transamerica Corporation. There were no defaults or breaches of conditions during the period.

The fair value of these loans amounted to EUR 141 million (2015: EUR 146 million).

## 36 Insurance contracts

### 36.1 Underwriting risk

Aegon's earnings depend significantly upon the extent to which actual claims experience differs from the assumptions used in setting the prices for products and establishing the technical liabilities and liabilities for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, Aegon may be required to change best estimate assumptions for future claims which could increase liabilities, which could reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the statement of financial position and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write offs should there be an expectation of unrecoverability. This could have a materially adverse effect on Aegon's business, results of operations and financial condition.

Sources of underwriting risk include policyholder behavior (such as lapses or surrender of policies), policy claims (such as mortality, longevity and morbidity) and expenses. For some product lines, Aegon is at risk if policy lapses increase as sometimes Aegon is unable to fully recover upfront expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, Aegon sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance, and sells certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. Aegon is also at risk if expenses are higher than assumed by management.

Aegon monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. Aegon's units also perform experience studies for underwriting risk assumptions, comparing Aegon's experience to industry experience as well as combining Aegon's experience and industry experience based on the depth of the history of each source to Aegon's underwriting assumptions. Where policy charges are flexible in products, Aegon uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Sensitivity analysis of net income and shareholders' equity to various underwriting risks is shown in the table that follows.
The sensitivities represent an increase or decrease of mortality (net of longevity) and morbidity rates over best estimate. Increases in mortality rates lead to an increase in the level of benefits and claims. Underwriting sensitivities were run using a permanent shock whereas prior year sensitivities were run using a temporary shock. The comparative numbers have been restated accordingly.
The change in methodology generally increased underwriting sensitivities compared to the prior year especially in mortality and morbidity sensitivities for life, health and variable annuity products. Life insurers are also exposed to longevity risk in some products. Increased life expectation above Aegon's assumed life expectation at the time of underwriting negatively impacts its results for these products.

| **Sensitivity analysis of net income and shareholders' equity to changes in various underwriting risks**<br>Estimated approximate effect | **2016** | | 2015 | |
|---|---|---|---|---|
| | **On shareholders' equity** | **On net income** | On shareholders' equity | On net income |
| 20% increase in lapse rates | 47 | 36 | 27 | 26 |
| 20% decrease in lapse rates | (104) | (91) | (48) | (46) |
| 10% increase in mortality rates | 548 | 153 | 205 | 128 |
| 10% decrease in mortality rates | (1,039) | (582) | (613) | (522) |
| 10% increase in morbidity rates | (521) | (445) | (381) | (376) |
| 10% decrease in morbidity rates | 184 | 127 | 100 | 95 |

The increase in the impact on the sensitivity of shareholders' equity for a 10% increase in mortality and for a 10% decrease in mortality is mainly due to Aegon the Netherlands, driven by a liability adequacy test deficit after the shock in 2016 where in 2015 there was still headroom in this test.

Aegon the Netherlands partially hedges the risk of future longevity increases in the Netherlands related to a part of its insurance liabilities. In 2012, Aegon the Netherlands bought a longevity index derivative, with a notional amount of EUR 12 billion, constructed to pay out if by 2032 the mortality rates have decreased more than a predetermined percentage compared to the base scenario at the moment of signing the contract. Payout of the derivative is defined based on a 'cumulative cash index', which represents the cumulative payout to a predefined (synthetic) insured population in relation to the expected payout (in the base scenario) to this same population. Both parties in the contract have the possibility to terminate the contract after 10 years (early termination clause). The payout is maximized at a predetermined percentage compared to the base scenario.

To further protect the longevity position of Aegon the Netherlands and combining this with protection for catastrophe mortality in the US, Aegon bought an additional longevity index derivative in 2013. This derivative was constructed to pay out in 2035, if some combination of higher than expected mortality rates in the US and/or lower than expected mortality rates in the Netherlands persists over the next twenty years from 2013 and, at that time, is expected to continue to do so. Payout of the derivative is defined based on a 'terminal present value', which represents the sum of 1) the cumulative payout to a predefined (synthetic) insured population over the years and 2) the remaining expected liability on this same population. The preceding sum is compared to amounts set at the moment of signing the contract to determine the actual payout. As part of Aegon's ongoing in-force portfolio review, this derivative was partially amended in 2016, as the underlying liabilities changed.

As a next step, Aegon the Netherlands bought another longevity hedge in 2015. The floating leg is a single payout in 2065. The payout depends on an index which is constructed as the aggregate benefit payments over the term of 50 years on an underlying book of annuities, which includes a significant portion of deferred annuities. The development of the index only depends on Dutch population mortality. The hedge provides out-of-the-money protection. The payout depends on where the index ends up relative to contractually agreed attachment and detachment points. In 2015, Aegon entered into this hedge for an amount of EUR 6 billion with Canada Life Re. Followed by a second tranche with the same counterparty in 2016, covering close to EUR 3 billion of underlying reserves.

### 36.2 Insurance contracts for general account

| | **2016** | 2015 |
|---|---|---|
| Life insurance | 105,763 | 109,884 |
| Non-life insurance | | |
| - Unearned premiums and unexpired risks | 5,822 | 5,202 |
| - Outstanding claims | 2,226 | 2,412 |
| - Incurred but not reported claims | 1,018 | 1,002 |
| Incoming reinsurance | 4,739 | 4,542 |
| **At December 31** | **119,569** | **123,042** |

| | **2016** | 2015 |
|---|---|---|
| Non-life insurance: | | |
| - Accident and health insurance | 8,821 | 7,993 |
| - General insurance | 245 | 623 |
| **Total non-life insurance** | **9,066** | **8,616** |

| **Movements during the year in life insurance:** | **2016** | 2015 |
|---|---|---|
| At January 1 | 109,884 | 100,539 |
| Acquisitions | 7 | 83 |
| Disposals | (99) | - |
| Portfolio transfers and acquisitions | 97 | (70) |
| Gross premium and deposits – existing and new business | 6,356 | 7,168 |
| Unwind of discount / interest credited | 4,050 | 4,708 |
| Insurance liabilities released | (10,033) | (10,263) |
| Changes in valuation of expected future benefits | 820 | (464) |
| Shadow accounting adjustments | 2,053 | (867) |
| Net exchange differences | 812 | 7,235 |
| Transfer (to) / from insurance contracts for account of policyholders | 1 | 1,046 |
| Transfers to disposal groups [1)] | (8,190) | - |
| Other | 5 | 769 |
| **At December 31** | **105,763** | **109,884** |

[1] Linked to the sale of Aegon UK's annuity portfolio, reported in Assets held for sale, refer to note 22 Assets and liabilities held for sale and note 51 Business combinations.

In the Netherlands, decreasing interest rates led to a deficiency in the liability adequacy test of EUR 1,567 million recorded in the line shadow accounting adjustments in 2016. This deficiency is recognized in the revaluation reserve as shadow loss recognition is applied. Accounting policies are disclosed in note 2.19.f Liability adequacy testing.

| **Movements during the year in non-life insurance:** | **2016** | 2015 |
|---|---|---|
| At January 1 | 8,616 | 7,601 |
| Acquisitions / Additions | - | 2 |
| Disposals | (334) | - |
| Gross premiums – existing and new business | 2,140 | 2,216 |
| Unwind of discount / interest credited | 426 | 369 |
| Insurance liabilities released | (1,186) | (989) |
| Changes in valuation of expected future claims | 44 | 2 |
| Change in unearned premiums | (1,093) | (1,250) |
| Change in unexpired risks | 2 | 3 |
| Incurred related to current year | 684 | 783 |
| Incurred related to prior years | 354 | 232 |
| Release for claims settled current year | (253) | (321) |
| Release for claims settled prior years | (843) | (775) |
| Shadow accounting adjustments | 289 | (105) |
| Loss recognized as a result of liability adequacy testing | - | 16 |
| Change in IBNR | (15) | 193 |
| Net exchange differences | 242 | 700 |
| Other | (5) | (63) |
| **At December 31** | **9,066** | **8,616** |

| **Movements during the year in incoming reinsurance:** | **2016** | 2015 |
|---|---|---|
| At January 1 | 4,542 | 3,786 |
| Gross premium and deposits – existing and new business | 1,700 | 1,609 |
| Unwind of discount / interest credited | 179 | 231 |
| Insurance liabilities released | (1,904) | (1,675) |
| Change in unearned premiums | 4 | 5 |
| Changes in valuation of expected future benefits | 59 | (51) |
| Loss recognized as a result of liability adequacy | 9 | (2) |
| Net exchange differences | 138 | 438 |
| Other | 13 | 200 |
| **At December 31** | **4,739** | **4,542** |

### 36.3 Insurance contracts for account of policyholders

| Insurance contracts for account of policyholders | 2016 | 2015 |
|---|---|---|
| At January 1 | 112,679 | 102,250 |
| Portfolio transfers and acquisitions | (353) | 79 |
| Gross premium and deposits – existing and new business | 12,931 | 14,407 |
| Unwind of discount / interest credited | 7,085 | 603 |
| Insurance liabilities released | (8,206) | (9,320) |
| Fund charges released | (1,725) | (1,710) |
| Changes in valuation of expected future benefits | 268 | (1,178) |
| Transfer (to) / from insurance contracts | (1) | (1,020) |
| Transfer (to) / from investment contracts for account of policyholders | (808) | 911 |
| Transfers to disposal groups [1)] | (1,002) | - |
| Net exchange differences | 55 | 7,644 |
| Other | 6 | 13 |
| **At December 31** | **120,929** | **112,679** |

[1] Linked to the sale of Aegon UK's annuity portfolio, reported in Assets held for sale, refer to note 22 Assets and liabilities held for sale and note 51 Business combinations.

## 37 Investment contracts

### 37.1 Investment contracts for general account

| | Without discretionary participation features | With discretionary participation features | Total |
|---|---|---|---|
| At January 1, 2016 | 17,260 | 457 | 17,718 |
| Portfolio transfers and acquisitions | 105 | - | 105 |
| Deposits | 7,200 | - | 7,200 |
| Withdrawals | (6,059) | - | (6,059) |
| Investment contracts liabilities released | - | (42) | (42) |
| Interest credited | 267 | - | 267 |
| Net exchange differences | 294 | (61) | 233 |
| Other | 150 | - | 150 |
| **At December 31, 2016** | **19,217** | **355** | **19,572** |
| At January 1, 2015 | 14,985 | 374 | 15,359 |
| Portfolio transfers and acquisitions | 16 | - | 16 |
| Deposits | 5,560 | - | 5,560 |
| Withdrawals | (4,698) | - | (4,698) |
| Investment contracts liabilities released | - | 65 | 65 |
| Interest credited | 276 | - | 276 |
| Net exchange differences | 1,052 | 19 | 1,071 |
| Other | 70 | - | 70 |
| **At December 31, 2015** | **17,260** | **457** | **17,718** |

| Investment contracts consist of the following: | 2016 | 2015 |
|---|---|---|
| Institutional guaranteed products | 3,223 | 3,300 |
| Fixed annuities | 6,809 | 6,468 |
| Savings accounts | 8,814 | 7,101 |
| Investment contracts with discretionary participation features | 355 | 457 |
| Other | 371 | 392 |
| **At December 31** | **19,572** | **17,718** |

### 37.2 Investment contracts for account of policyholders

| | Without discretionary participation features | With discretionary participation features | Total |
|---|---|---|---|
| At January 1, 2016 | 40,365 | 49,754 | 90,119 |
| Gross premium and deposits – existing and new business | 6,553 | 1,724 | 8,277 |
| Withdrawals | (6,393) | - | (6,393) |
| Interest credited | 2,649 | 7,280 | 9,929 |
| Investment contracts liabilities released | - | (10,841) | (10,841) |
| Fund charges released | (209) | - | (209) |
| Net exchange differences | (12) | (6,754) | (6,767) |
| Transfer (to) / from insurance contracts for account of policyholders | - | 808 | 808 |
| Other | (149) | - | (149) |
| **At December 31, 2016** | **42,803** | **41,971** | **84,774** |
| At January 1, 2015 | 38,220 | 53,629 | 91,849 |
| Gross premium and deposits – existing and new business | 9,863 | 2,164 | 12,027 |
| Withdrawals | (10,859) | - | (10,859) |
| Interest credited | 11 | 2,859 | 2,869 |
| Investment contracts liabilities released | - | (10,930) | (10,930) |
| Fund charges released | (238) | - | (238) |
| Net exchange differences | 3,496 | 2,943 | 6,439 |
| Transfer (to) / from insurance contracts for account of policyholders | - | (911) | (911) |
| Other | (128) | - | (128) |
| **At December 31, 2015** | **40,365** | **49,754** | **90,119** |

## 38 Guarantees in insurance contracts

For financial reporting purposes Aegon distinguishes between the following types of minimum guarantees:

a. Financial guarantees: these guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (note 2.9 and note 47 Fair value);
b. Total return annuities: these guarantees are not bifurcated from their host contracts because they are presented and valued at fair value together with the underlying insurance contracts (note 2.19);
c. Life contingent guarantees in the United States: these guarantees are not bifurcated from their host contracts, presented and valued in accordance with insurance accounting together with the underlying insurance contracts (note 2.19); and
d. Minimum investment return guarantees in the Netherlands: these guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (note 2.19 and note 47 Fair value).

In addition to the guarantees mentioned above, Aegon has traditional life insurance contracts that include minimum guarantees that are not valued explicitly; however, the adequacy of all insurance liabilities, net of VOBA and DPAC, and including all guarantees, are assessed periodically (note 2.19).

### a. Financial guarantees

In the United States and in the United Kingdom, a guaranteed minimum withdrawal benefit (GMWB) is offered directly on some variable annuity products Aegon issues and is also assumed from a ceding company. Additionally, Aegon offers guarantees on variable annuities sold through its joint venture in Japan. Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a customer to select payout options designed to help meet the customer's need for income upon maturity, including lump sum payment or income for life or for a period of time. This benefit guarantees that a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or during the life of the policyholder.

In the Netherlands, individual variable unit-linked products have a minimum benefit guarantee if premiums are invested in certain funds. The sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (in the range of 3% to 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

The following table provides information on the liabilities for financial guarantees for minimum benefits, net of present value of the expected future premiums that are received to cover these guarantees:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | United States [1] | The Netherlands [2] | United Kingdom | **Total [3]** | United States [1] | The Netherlands [2] | United Kingdom | Total [3] |
| At January 1 | 510 | 1,432 | 56 | 1,998 | 1,087 | 1,733 | 53 | 2,873 |
| Incurred guarantee benefits [4] | (113) | 123 | - | 10 | (686) | (301) | 3 | (984) |
| Paid guarantee benefits | (1) | - | 12 | 11 | - | - | - | (2) |
| Net exchange differences | 10 | - | - | 10 | 109 | - | - | 109 |
| **At December 31** | **405** | **1,555** | **68** | **2,028** | **510** | **1,432** | **56** | **1,998** |
| Account value [5] | 35,374 | 8,957 | 1,350 | 45,681 | 33,182 | 7,624 | 1,468 | 42,274 |
| Net amount at risk [6] | 222 | 1,972 | 68 | 2,262 | 222 | 1,636 | 56 | 1,914 |

[1] Guaranteed minimum accumulation and withdrawal benefits.
[2] Fund plan and unit-linked guarantees.
[3] Balances are included in the derivatives liabilities on the face of the statement of financial position; refer to note 25 Derivatives.
[4] Incurred guarantee benefits mainly comprise the effect of guarantees from new contracts, releases related to expired out-of-the-money guarantees and fair value movements during the reporting year.
[5] Account value reflects the actual fund value for the policyholders.
[6] The net amount at risk represents the sum of the positive differences between the discounted maximum amount payable under the guarantees and the account value.

The decrease of incurred guarantee benefits mainly relates to fair value movements due to increasing interest rates and tightening of treasury swaps spreads.

Aegon Americas mitigates the exposure from the elective guaranteed minimum withdrawal benefit rider issued with a ceding company's variable annuity contracts. The rider is essentially a return of premium guarantee, which is payable over a period of at least 14 years from the date that the policyholder elects to start withdrawals. At contract inception, the guaranteed remaining balance is equal to the premium payment. The periodic withdrawal is paid by the ceding company until the account value is insufficient to cover additional withdrawals. Once the account value is exhausted, Aegon pays the periodic withdrawals until the guaranteed remaining balance is exhausted. At December 31, 2016, the reinsured account value was EUR 2.4 billion (2015: EUR 2.5 billion) and the guaranteed remaining balance was EUR 1.5 billion (2015: EUR 1.7 billion).

The GMWB rider Aegon assumed from the ceding company is accounted for as a derivative and is carried in Aegon's statement of financial position at fair value. At December 31, 2016, the contract had a value of EUR 50 million (2015: EUR 69 million). Aegon entered into a derivative program to mitigate the overall exposure to equity market and interest rate risks associated with the reinsurance contract. This program involves selling equity futures contracts (S&P 500, Midcap, Russell 2000, and the MCSI EAFE index in accordance with Aegon's exposure) to mitigate the effect of equity market movement on the reinsurance contract and the purchase of over-the-counter interest rate swaps to mitigate the effect of movements in interest rates on the reinsurance contracts.

Aegon the Netherlands provides guarantees to its customers on expiry date for certain insurance contracts. In order to mitigate the risks related to the guarantees Aegon the Netherlands has setup a hedging program. Aegon the Netherlands does not use reinsurance in order to mitigate risks related to insurance contracts with a guarantee component. The net amount at risk represents the sum of the positive differences between the discounted maximum amount payable under the guarantees and the account value, which is the actual fund value of the policyholder.

### b. Total return annuities

Total Return Annuity (TRA) is an annuity product in the United States which provides customers with a pass-through of the total return on an underlying portfolio of investment securities (typically a mix of corporate and convertible bonds) subject to a cumulative minimum guarantee. Both the assets and liabilities are carried at fair value, however, due to the minimum guarantee not all of the changes in the market value of the asset will be offset in the valuation of the liability. This product exists for the fixed annuity line of business and represents a closed block.

The fixed annuities product balance as of December 31, 2016, amounted to EUR 328 million (2015: EUR 365 million).

### c. Life contingent guarantees in the United States

Certain variable insurance contracts in the United States also provide guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). Under a GMDB, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The net amount at risk for GMDB contracts is defined as the current GMDB in excess of the capital account balance at the reporting date.

The GMIB feature provides for minimum payments if the contract holder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contract holder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value.

The additional liability for guaranteed minimum benefits that are not bifurcated are determined each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

The following table provides information on the liabilities for guarantees for minimum benefits that are included in the valuation of the host contracts:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | GMDB [1] | GMIB [2] | **Total [4]** | GMDB [1] | GMIB [2] | Total [4] |
| At January 1 | 544 | 816 | 1,359 | 419 | 782 | 1,201 |
| Incurred guarantee benefits [5] | 48 | 83 | 130 | 147 | (19) | 127 |
| Paid guarantee benefits | (75) | (74) | (148) | (72) | (35) | (107) |
| Net exchange differences | 15 | 25 | 40 | 49 | 88 | 137 |
| **At December 31** | **531** | **849** | **1,381** | **544** | **816** | **1,359** |
| | GMDB [1], [3] | GMIB [2], [3] | | GMDB [1], [3] | GMIB [2], [3] | |
| Account value [6] | 54,821 | 5,628 | | 52,346 | 5,760 | |
| Net amount at risk [7] | 2,615 | 684 | | 2,934 | 641 | |
| Average attained age of contract holders | 69 | 69 | | 69 | 69 | |

[1] Guaranteed minimum death benefit in the United States.
[2] Guaranteed minimum income benefit in the United States.
[3] Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.
[4] Balances are included in the insurance liabilities on the face of the statement of financial position; refer to note 36 Insurance contracts.
[5] Incurred guarantee benefits mainly comprise the effect of guarantees from new contracts, releases related to expired out-of-the-money guarantees and value changes as a consequence of interest movements during the reporting year.
[6] Account value reflects the actual fund value for the policyholders.
[7] The net amount at risk is defined as the present value of the minimum guaranteed annuity payments available to the contract holder determined in accordance with the terms of the contract in excess of the current account balance.

### d. Minimum investment return guarantees in the Netherlands

The traditional life and pension products offered by Aegon in the Netherlands include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of traditional accumulation products written. Older generations contain a 4% guarantee; in 1999 the guarantee decreased to 3% and in 2013 the guarantee decreased to 0%.

The traditional group pension contracts offered by Aegon in the Netherlands include large group insurance contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the maximum of 0% and the realized return on an asset portfolio specified in the policy conditions, adjusted for technical interest rates ranging from 3% to 4%. If the adjusted return is negative, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses within the contract period. In general, a guarantee is given for the life of the underlying

employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period.

These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts in note 36 Insurance contracts.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts, net of the present value of the expected future premiums that are received to cover these guarantees:

| | **2016** | 2015 |
|---|---|---|
| | **GMI [1), 2)]** | GMI [1), 2)] |
| At January 1 | 4,741 | 5,433 |
| Incurred guarantee benefits [3)] | 801 | (692) |
| **At December 31** | **5,542** | **4,741** |
| Account value [4)] | 19,467 | 18,112 |
| Net amount at risk [5)] | 5,017 | 4,205 |

[1] Guaranteed minimum investment return in the Netherlands.
[2] Balances are included in the insurance liabilities on the face of the statement of financial position; refer to note 36 Insurance contracts.
[3] Incurred guarantee benefits mainly comprise the effect of guarantees from new contracts, releases related to expired out-of-the-money guarantees and fair value movements during the reporting year.
[4] Account value reflects the liability value of the insurance contracts as a whole.
[5] The net amount at risk represents the sum of the differences between the guaranteed and actual amount that is credited to the policyholders. For Individual policies only positive differences are included, for Group pensions contracts carry forwards of negative differences are recognized.

### Fair value measurement of guarantees in insurance contracts

The fair values of guarantees mentioned above (with the exception of life contingent guarantees in the United States) are calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. For further details refer to note 47 Fair value.

For equity volatility, Aegon uses a term structure assumption with market-based implied volatility inputs for the first five years and a long-term forward rate assumption of 25% thereafter. The volume of observable option trading from which volatilities are derived generally declines as the contracts' term increases, therefore, the volatility curve grades from implied volatilities for five years to the ultimate rate. The resulting volatility assumption in year 20 for the S&P 500 index (expressed as a spot rate) was 24.0% at December 31, 2016, and 24.2% at December 31, 2015. Correlations of market returns across underlying indices are based on historical market returns and their inter-relationships over a number of years preceding the valuation date. Assumptions regarding policyholder behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

These assumptions are reviewed at each valuation date, and updated based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions. Disclosure on interest rate risk, including interest rate risk sensitivity is included in note 4 Financial risks.

Aegon utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees.

Guarantees valued at fair value contributed a net loss before tax of EUR 61 million (2015: gain of EUR 21 million) to earnings. The main drivers of this loss before tax are negative results related to increases in risk free rates of EUR 1,159 million (2015: EUR 543 million gain) and DPAC offset and other contributed a loss of EUR 279 million (2015: EUR 493 million gain) partly offset by hedges related to the guarantee reserves contributed fair value gain of EUR 325 million to income before tax (2015: EUR 670 million loss), a gain of EUR 404 million related to increasing own credit spread (2015: EUR 202 million loss), a gain of EUR 671 million related to a increase in equity markets (2015: EUR 114 million loss) and a gain of EUR 7 million related to decreases in equity volatilities (2015: EUR 11 million loss).

Guarantee reserves increased EUR 863 million in 2016 (2015: decrease of EUR 1,526 million).

## 39 Borrowings

| | 2016 | 2015 |
|---|---|---|
| Capital funding | 2,386 | 2,015 |
| Operational funding | 10,766 | 10,430 |
| **At December 31** | **13,153** | **12,445** |
| Current | 1,902 | 2,587 |
| Non-current | 11,251 | 9,858 |
| Fair value of borrowings | 13,545 | 12,811 |

Aegon's borrowings are defined separately as capital funding and operational funding. Capital funding includes debt securities that are issued for general corporate purposes and for capitalizing its business units. Capital funding is part of the Company's total capitalization that is used for financing its subsidiaries and the cash held at the holding company. Operational funding includes debt securities that are issued for financing of dedicated pools of assets. These assets are either legally segregated or tracked as separate portfolios.

### Capital funding

On December 9, 2016 Aegon issued senior unsecured notes of EUR 500 million, due December 8, 2023. The notes were issued under Aegon's USD 6 billion debt issuance program at a price of 99.210%, and will carry a coupon of 1.00%.

A detailed composition of capital funding is included in the following table:

| (sorted at maturity) | Coupon rate | Coupon date | Issue / Maturity | 2016 | 2015 |
|---|---|---|---|---|---|
| EUR 500 million Unsecured Notes | 3% | July 18 | 2012 / 17 | 500 | 499 |
| EUR 75 million Medium-Term Notes [1)] | 4.625% | December 9 | 2004 / 19 | 84 | 86 |
| USD 500 million Senior Notes [1), 2)] | 5.75% | Semi-annually | 2005 / 20 | 526 | 530 |
| EUR 500 million Senior Unsecured Notes | 1.00% | December 8 | 2016 / 23 | 495 | - |
| GBP 250 million Medium-Term Notes | 6.125% | December 15 | 1999 / 31 | 291 | 337 |
| GBP 400 million Senior Unsecured Notes | 6.625% | Semi-annually | 2009 / 39 | 462 | 536 |
| Other | | | | 28 | 27 |
| **At December 31** | | | | **2,386** | **2,015** |

[1] Measured at fair value.
[2] Issued by subsidiaries of, and guaranteed by, Aegon N.V.

These loans are considered senior debt in calculating financial leverage in note 46 Capital management and solvency.

## Operational funding

During 2016, Aegon redeemed EUR 450 million of ECB LTRO, EUR 225 million of ECB MRO, EUR 737 million of regular borrowings and repurchased the mortgage loans from SAECURE 9 and SAECURE 10 for EUR 1,658 million.
In addition, Aegon entered into a USD 3 billion new liquidity program from the Federal Home Loan Bank and issued a EUR 500 million covered bond.

| (sorted at maturity) | Coupon rate | Coupon date | Issue / Maturity | 2016 | 2015 |
|---|---|---|---|---|---|
| Revolving Loan Facility Warehouse Mortgage Loans [1] | Floating | Monthly | - / 2017-19 | 399 | 481 |
| EUR 450 million ECB LTRO [1] | Floating | At Maturity | 2015 / 16 | - | 450 |
| EUR 225 million ECB MRO [1] | Floating | At Maturity | 2015 / 16 | - | 225 |
| EUR 842 million 'SAECURE 9' RMBS Note [1] | Floating | Quarterly | 2010 / 16 | - | 564 |
| EUR 1,500 million 'SAECURE 10' RMBS Note [1] | Floating | Quarterly | 2011 / 16 | - | 1,094 |
| EUR 1,365 million 'SAECURE 12' RMBS Note [1, 2] | Floating | Quarterly | 2012 / 17 | 1,030 | 1,140 |
| EUR 750 million 'SAECURE 13' RMBS Note [1, 3] | Floating | Quarterly | 2013 / 18 | 862 | 962 |
| EUR 1,367 million 'SAECURE 14' RMBS Note [1, 4] | Floating | Quarterly | 2014 / 19 | 1,126 | 1,230 |
| EUR 1,443 million 'SAECURE 15' RMBS Note [1, 5] | Floating | Quarterly | 2014 / 20 | 1,284 | 1,376 |
| EUR 750 million Conditional Pass-Through Covered Bond [1, 6] | 0.267% | Annual | 2015 / 20 | 747 | 747 |
| EUR 500 million Conditional Pass-Through Covered Bond [1, 7] | 0.250% | Annual | 2016 / 23 | 495 | - |
| USD 292 million Senior Secured Note [1] | Floating | Quarterly | 2012 / 23 | - | 264 |
| USD 1.54 billion Variable Funding Surplus Note [8, 9] | Floating | Quarterly | 2006 / 36 | 1,505 | 1,448 |
| USD 550 million Floating Rate Guaranteed Note [8, 10] | Floating | Quarterly | 2007 / 37 | 450 | 437 |
| FHLB Secured borrowings [1] | Floating | Quarterly | 2016 / 46 | 2,839 | - |
| Other | | | | 27 | 12 |
| **At December 31** | | | | **10,766** | **10,430** |

[1] Issued by a subsidiary of Aegon N.V.
[2] The first optional redemption date is 30 October 2017; the legal maturity date is 30 July 2092. Notes are fully collateralized by mortgage loans which are part of Aegon's general account investments.
[3] The first optional redemption date is 28 February 2018; the legal maturity date is 30 November 2093. Notes are fully collateralized by mortgage loans which are part of Aegon's general account investments.
[4] The first optional redemption date is 30 January 2019; the legal maturity date is 30 January 2092. Notes are fully collateralized by mortgage loans which are part of Aegon's general account investments.
[5] The first optional redemption date is 30 January 2020; the legal maturity date is 30 January 2092. Notes are fully collateralized by mortgage loans which are part of Aegon's general account investments.
[6] The maturity date is 1 December 2020; the extended due for payment date is 1 December 2052.
[7] The maturity date is 25 May 2023; the extended due for payment date is 25 May 2055.
[8] Outstanding amounts can vary up to the maximum stated nominal amount.
[9] This debenture is issued by a wholly owned captive that is consolidated in the Aegon N.V. consolidated financial statements. A guarantee has been provided by Aegon N.V. - refer to note 48 Commitments and contingencies.
[10] This debenture is issued by a wholly owned captive that is consolidated in the Aegon N.V. consolidated financial statements.

## Other

Included in borrowings is EUR 610 million relating to borrowings measured at fair value (2015: EUR 617 million). For the year 2016, Aegon's credit spread had a negative impact of EUR 1 million on income before tax (2015: negative impact of EUR 4 million) and a negative impact of EUR 1 million on shareholders' equity (2015: negative impact of EUR 3 million). The cumulative negative impact of Aegon's credit spread for borrowings in portfolio at year end, based on observable market data, on income before tax amounted to EUR 12 million (2015: EUR 11 million).

The difference between the contractually required payment at maturity date and the carrying amount of the borrowings amounted to EUR 39 million (2015: EUR 66 million).

| Undrawn committed borrowing facilities: | 2016 | 2015 |
|---|---|---|
| Floating-rate | | |
| - Expiring within one year | 463 | 230 |
| - Expiring beyond one year | 3,422 | 3,338 |
| **At December 31** | **3,885** | **3,568** |

There were no defaults or breaches of conditions during the period.

## 40 Provisions

| | 2016 | 2015 |
|---|---|---|
| At January 1 | 175 | 322 |
| Additional provisions | 92 | 91 |
| Disposals | (33) | (7) |
| Unused amounts reversed through the income statement | (3) | (50) |
| Unwinding of discount and change in discount rate | - | 4 |
| Used during the year | (55) | (190) |
| Net exchange differences | (3) | 6 |
| **At December 31** | **173** | **175** |
| Current | 88 | 115 |
| Non-current | 85 | 61 |

The remaining provisions mainly consist of provisions regarding fees payable upon purchase and surrender of unit-linked policies in the Polish Life Insurance portfolio of EUR 24 million (2015: EUR 12 million), restructuring provisions of EUR 39 million (2015: EUR 68 million), provisions for unearned commission of EUR 25 million (2015: EUR 27 million), litigation provisions of EUR 11 million (2015: EUR 14 million) and other provisions of EUR 74 million (2015: EUR 54 million) including the remaining provision related to the harbor workers' former pension fund Optas.

## 41 Defined benefit plans

| | 2016 | 2015 |
|---|---|---|
| Retirement benefit plans | 4,453 | 4,135 |
| Other post-employment benefit plans | 314 | 296 |
| **Total defined benefit plans** | **4,767** | **4,430** |
| Retirement benefit plans in surplus | 51 | 41 |
| Other post-employment benefit plans in surplus | - | - |
| **Total defined benefit assets** | **51** | **41** |
| Retirement benefit plans in deficit | 4,503 | 4,176 |
| Other post-employment benefit plans in deficit | 314 | 296 |
| **Total defined benefit liabilities** | **4,817** | **4,471** |

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **Movements during the year in defined benefit plans** | Retirement benefit plans | Other post-employment benefit plans | **Total** | Retirement benefit plans | Other post-employment benefit plans | Total |
| At January 1 | 4,135 | 296 | 4,430 | 4,095 | 272 | 4,366 |
| Defined benefit expenses | 302 | 22 | 324 | 246 | 40 | 286 |
| Remeasurements of defined benefit plans | 388 | 5 | 392 | (209) | (25) | (234) |
| Acquisition of subsidiary | - | 3 | 3 | - | - | - |
| Contributions paid | (250) | - | (250) | (23) | - | (23) |
| Benefits paid | (106) | (18) | (125) | (106) | (17) | (122) |
| Net exchange differences | (15) | 7 | (8) | 131 | 25 | 157 |
| **At December 31** | **4,453** | **314** | **4,767** | **4,135** | **296** | **4,430** |

The amounts recognized in the statement of financial position are determined as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Retirement benefit plans | Other post-employment benefit plans | **Total** | Retirement benefit plans | Other post-employment benefit plans | Total |
| Present value of wholly or partly funded obligations | 4,834 | - | 4,834 | 4,731 | - | 4,731 |
| Fair value of plan assets | (3,793) | - | (3,793) | (3,569) | - | (3,569) |
| | **1,041** | **-** | **1,041** | **1,161** | **-** | **1,161** |
| Present value of wholly unfunded obligations [1)] | 3,412 | 314 | 3,726 | 2,973 | 296 | 3,269 |
| **At December 31** | **4,453** | **314** | **4,767** | **4,135** | **296** | **4,430** |

[1] Assets held by Aegon the Netherlands of EUR 2,796 million (2015: EUR 2,635 million) that are backing retirement benefits, do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets does not form part of the calculation of defined benefit expenses.

The fair value of Aegon's own transferable financial instruments included in plan assets and the fair value of other assets used by Aegon included in plan assets was nil in both 2016 and 2015.

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **Defined benefit expenses** | Retirement benefit plans | Other post-employment benefit plans | **Total** | Retirement benefit plans | Other post-employment benefit plans | Total |
| Current year service cost | 127 | 13 | 140 | 134 | 10 | 144 |
| Net interest on the net defined benefit liability (asset) | 123 | 11 | 134 | 119 | 10 | 129 |
| Past service cost | 53 | (2) | 50 | (7) | 20 | 13 |
| **Total defined benefit expenses** | **302** | **22** | **324** | **246** | **40** | **286** |

| | 2014 | | |
|---|---|---|---|
| | Retirement benefit plans | Other post-employment benefit plans | Total |
| Current year service cost | 94 | 8 | 102 |
| Net interest on the net defined benefit liability (asset) | 110 | 10 | 121 |
| Past service cost | (51) | 6 | (45) |
| **Total defined benefit expenses** | **153** | **24** | **177** |

Defined benefit expenses are included in 'Commissions and expenses' in the income statement.

| **Movements during the year of the present value of the defined benefit obligations** | **2016** | 2015 |
|---|---|---|
| At January 1 | 8,000 | 7,792 |
| Acquisition of subsidiary | 3 | - |
| Current year service cost | 140 | 144 |
| Interest expense | 267 | 268 |
| *Remeasurements of the defined benefit obligations:* | | |
| - Actuarial gains and losses arising from changes in demographic assumptions | (211) | (12) |
| - Actuarial gains and losses arising from changes in financial assumptions | 894 | (315) |
| Past service cost | 50 | 13 |
| Contributions by plan participants | 11 | 11 |
| Benefits paid | (461) | (366) |
| Net exchange differences | (133) | 465 |
| **At December 31** | **8,560** | **8,000** |

| Movements during the year in plan assets for retirement benefit plans | 2016 | 2015 |
|---|---|---|
| At January 1 | 3,569 | 3,426 |
| Interest income (based on discount rate) | 134 | 138 |
| Remeasurements of the net defined liability (asset) | 290 | (93) |
| Contributions by employer | 261 | 34 |
| Benefits paid | (336) | (244) |
| Net exchange differences | (125) | 308 |
| **At December 31** | **3,793** | **3,569** |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Breakdown of plan assets for retirement benefit plans** | **Quoted** | **Unquoted** | Quoted | Unquoted |
| Equity instruments | 206 | 14 | 246 | 7 |
| Debt instrument | 570 | 713 | 499 | 723 |
| Derivatives | - | 179 | - | 117 |
| Investment funds | 4 | 1,701 | 7 | 1,602 |
| Structured securities | - | 3 | - | 3 |
| Other | 12 | 392 | 11 | 354 |
| **At December 31** | **792** | **3,001** | **764** | **2,806** |

Defined benefit plans are mainly operated by Aegon USA, Aegon the Netherlands and Aegon UK. The following sections contain a general description of the plans in each of these subsidiaries and a summary of the principal actuarial assumptions applied in determining the value of defined benefit plans.

### Aegon USA

Aegon USA has defined benefit plans covering substantially all its employees that are qualified under the Internal Revenue Service Code, including all requirements for minimum funding levels. The defined benefit plans are governed by the Board of Managers of Transamerica Corporation. The Board of Managers has the full power and discretion to administer the plan and to apply all of its provisions, including such responsibilities as, but not limited to, developing the investment policy and managing assets for the plan, maintaining required funding levels for the plan, deciding questions related to eligibility and benefit amounts, resolving disputes that may arise from plan participants and for complying with the plan provisions, and legal requirements related to the plan and its operation. The benefits are based on years of service and the employee's eligible annual compensation. The plans provide benefits based on a traditional final average formula or a cash balance formula (which defines the accrued benefit in terms of a stated account balance), depending on the age and service of the plan participant. The defined benefit plans were unfunded by EUR 742 million at December 31, 2016 (2015: EUR 863 million unfunded).

Investment strategies are established based on asset and liability studies by actuaries which are updated as they consider appropriate. These studies, along with the investment policy, assist to develop the appropriate investment criteria for the plan, including asset allocation mix, return objectives, investment risk and time horizon, benchmarks and performance standards, and restrictions and prohibitions. The overall goal is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk and diversification. Aegon believes that the asset allocation is an important factor in determining the long-term performance of the plan. The plan uses multiple asset classes as well as sub-classes to meet the asset allocation and other requirements of the investment policy, which minimizes investment risk. From time to time the actual asset allocation may deviate from the desired asset allocation ranges due to different market performance among the various asset categories. If it is determined that rebalancing is required, future additions and withdrawals will be used to bring the allocation to the desired level.

Aegon USA maintains minimum required funding levels as set forth by the Internal Revenue Code. If contributions are required, the funding would be provided from the Company's general account assets. Pension plan contributions were not required for Aegon USA in 2016 or 2015. However, with the approval of the Aegon NV Management Board, Aegon USA made a pension plan contribution of USD 250 million (EUR 226 million) in September 2016 that was over and above the minimum required funding levels as set forth by the Internal Revenue Code.

Aegon USA also sponsors supplemental retirement plans to provide senior management with benefits in excess of normal retirement benefits. The plans are unfunded and are not qualified under the Internal Revenue Code. The supplemental retirement plans are governed by either Transamerica Corporation, or the Compensation Committee of the Board of Directors of Transamerica Corporation. Transamerica Corporation, or the Compensation Committee of the Board of Directors has the full power and discretion to apply all of

the plan's provisions, including such responsibilities as, but not limited to, interpret the plan provisions, to make factual determinations under the plan, to determine plan benefits, and to comply with any statutory reporting and disclosure requirements. The benefits are based on years of service and the employee's eligible annual compensation. The plans provide benefits based on a traditional final average formula or a cash balance formula (which defines the accrued benefit in terms of a stated account balance), depending on the age and service of the plan participant. The company funds the benefit payments of the supplemental retirement plans from its general account assets. The unfunded amount related to these plans, for which a liability has been recorded, was EUR 286 million (2015: EUR 284 million).

Aegon USA provides health care benefits to retired employees through continuation of coverage in unfunded plans. The post-retirement health care benefits under the Plans are administered by Transamerica Corporation, which has delegated the claims administration to third-party administrators. Aegon USA maintains two plans which provide continuation of coverage for retiree medical benefits. For each plan, Aegon USA has the fiduciary responsibility to administer the plan in accordance with its terms, and decides questions related to eligibility and determines plan provisions and benefit amounts.

Under the Employee Retirement Income Security Act (ERISA), Aegon USA has the fiduciary responsibility to monitor the quality of services provided by the third-party claims administrator and to replace the third-party administrator if needed. In addition, Aegon USA has the fiduciary obligation to interpret the provisions of the plans, and to comply with any statutory reporting and disclosure requirements. Finally, Aegon USA reviews the terms of the plans and makes changes to the plans if and when appropriate. Aegon USA funds the benefit payments of the post-retirement health care plans from its general account assets. The post-retirement health benefit liability amounted to EUR 246 million (2015: EUR 235 million).

The weighted average duration of the defined benefit obligation is 13.3 years (2015: 13.2 years).

The principal actuarial assumptions that apply for the year ended December 31 are as follows:

| **Actuarial assumptions used to determine defined benefit obligations at year-end** | **2016** | 2015 |
|---|---|---|
| **Demographic actuarial assumptions** | | |
| Mortality | US mortality table[1)] | US mortality table[2)] |
| **Financial actuarial assumptions** | | |
| Discount rate | 4.10% | 4.25% |
| Salary increase rate | 3.87% | 3.91% |
| Health care trend rate | 7.25% | 8.00% |

[1] U.S. Society of Actuaries RP2014 mortality table with Scale MP2016.
[2] U.S. Society of Actuaries RP2014 mortality table with Scale MP2015.

The principal actuarial assumptions have an effect on the amounts reported for the defined benefit obligation. A change as indicated in the table below in the principal actuarial assumptions would have the following effects on the defined benefit obligation per year-end:

| | Estimated approximate effects on the defined benefit obligation | |
|---|---|---|
| | 2016 | 2015 |
| **Demographic actuarial assumptions** | | |
| 10% increase in mortality rates | (77) | (72) |
| 10% decrease in mortality rates | 84 | 79 |
| **Financial actuarial assumptions** | | |
| 100 basis points increase in discount rate | (440) | (428) |
| 100 basis points decrease in discount rate | 546 | 530 |
| 100 basis points increase in salary increase rate | 42 | 50 |
| 100 basis points decrease in salary increase rate | (37) | (43) |
| 100 basis points increase in health care trend rate | 16 | 17 |
| 100 basis points decrease in health care trend rate | (14) | (15) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

| | Target allocation of plan assets for retirement benefit plans for the next annual period is: |
|---|---|
| Equity instruments | 15-55% |
| Debt instruments | 30-50% |
| Other | 12-30% |

### Aegon the Netherlands

Aegon Nederland has a number of defined benefit plans and a small number of defined contribution plans. The defined benefit plans are subject to Dutch Pension regulations and governed by the Executive Board of Aegon Nederland. The Executive Board has the full power and discretion to administer the plan including developing investment policy and managing assets for the plans (although these assets do not qualify as 'plan assets' as defined by IFRS), deciding questions related to eligibility and benefit amounts, and any disputes that may arise from plan participants and for complying with the plan provisions, and legal requirements related to the plan and its operation. Aegon Nederland runs, in principle, full actuarial and investment risk regarding the defined benefit plans. A part of this risk can be attributed to plan participants by lowering indexation or by increasing employee contributions. Furthermore, the specific statutory requirements governing the administration of group pension schemes have been laid down in the Pension Act (Pensioenwet / Pw). Insurers are subject to prudential supervision pursuant to the Financial Supervision Act (Wet op het financieel toezicht / Wft).

Investment strategies are established based on asset and liability studies. The overall goal is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk. These studies use for example return objectives and various investment instruments. Investment restrictions are updated regularly and they result in asset allocation mix and hedges.

The contributions to the retirement benefit plan of Aegon Nederland are paid by both the employees and the employer, with the employer contribution being variable. The benefits covered are retirement benefits, disability, death and survivor pension and are based on an average wage system. The defined benefit plans were unfunded by EUR 3,121 million at December 31, 2016. (2015: EUR 2,683 million). The defined benefit plans are largely backed by investment, although these assets do not qualify as 'plan assets' as defined by IFRS. The average remaining duration of the defined benefits obligation is 19.7 years (2015: 18.6 years).

Aegon Nederland also has a post-retirement medical plan that contributes to the health care coverage of employees and beneficiaries after retirement. For this plan, Aegon Nederland has the responsibility to administer the plan in accordance with its terms, and decides on questions related to eligibility and determines plan provisions and benefit amounts. In addition, Aegon Nederland has the obligation to interpret the provisions of the plans, and to comply with any statutory reporting and disclosure requirements. Finally, Aegon Nederland reviews the terms of the plans and makes changes to the plans if and when appropriate. The liabilities related to these other post-employment benefit plans are fully unfunded and amount to EUR 68 million at December 31, 2016 (2015: EUR 61 million). The weighted average duration of the other post-employment benefit plans is 10.8 years (2015: 10.8 years).

The principal actuarial assumptions that apply for the year ended December 31 are as follows:

| **Actuarial assumptions used to determine defined benefit obligations at year-end** | **2016** | 2015 |
|---|---|---|
| **Demographic actuarial assumptions** | | |
| Mortality | Aegon table 2013 [1)] | Aegon table 2013 [1)] |
| **Financial actuarial assumptions** | | |
| Discount rate | 1.79% | 2.61% |
| Salary increase rate [2)] | Curve 2016 | Curve 2015 |
| Indexation [2)] | 45.20% of Curve 2016 | 54.28% of Curve 2015 |

[1] Based on prospective mortality table of the Dutch Actuarial Society with minor methodology adjustments.
[2] Based on Dutch Consumer Price Index

In previous years fixed percentages were used for the salary increase rate, price inflation and indexation. Aegon the Netherlands changed these inputs to make use of curves based on the Dutch Consumer Price Index.

The principal actuarial assumptions have an effect on the amounts reported for the defined benefit obligation. A change as indicated in the table below in the principal actuarial assumptions of the retirement benefit plan would have the following effects per year-end:

| | Estimated approximate effects on the defined benefit obligation | |
|---|---|---|
| | **2016** | 2015 |
| **Demographic actuarial assumptions** | | |
| 10% increase in mortality rates | (83) | (67) |
| 10% decrease in mortality rates | 94 | 75 |
| **Financial actuarial assumptions** | | |
| 100 basis points increase in discount rate | (545) | (442) |
| 100 basis points decrease in discount rate | 732 | 587 |
| 100 basis points increase in salary increase rate | 19 | 15 |
| 100 basis points decrease in salary increase rate | (19) | (14) |
| 25 basis points increase in indexation | 170 | 136 |
| 25 basis points decrease in indexation | (158) | (127) |

The above sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognized within the statement of financial position.

### Aegon UK

Aegon UK operated a defined benefit pension scheme providing benefits for staff based on final pensionable salary and years of service. The scheme closed to new entrants a number of years ago and closed to future accrual on March 31, 2013. Aegon UK now offers a defined contribution pension scheme to all employees.

The pension scheme is administered separately from Aegon UK and is governed by Trustees, who are required to act in the best interests of the pension scheme members.

The pension scheme Trustees are required to carry out triennial valuations on the scheme's funding position, with the latest valuation being as at March 31, 2016. As part of this triennial valuation process, a schedule of contributions is agreed between the Trustees and Aegon UK in accordance with UK pensions legislation and guidance issued by the Pensions Regulator in the UK. The schedule of contributions includes deficit reduction contributions to clear any scheme deficit. Under IAS 19, the defined benefit plan has a deficit of EUR 298 million at December 31, 2016 (2015: EUR 298 million).

The investment strategy for the scheme is determined by the trustees in consultation with Aegon UK. Currently 40% of assets are invested in growth assets (i.e. primarily equities) and 60% are liability driven investments where the investments are a portfolio of fixed interest and inflation-linked bonds and related derivatives, selected to broadly match the interest rate and inflation profile of liabilities.

Under the scheme rules, pensions in payment increase in line with the UK Retail Price Index, and deferred benefits increase in line with the UK Consumer Price Index. The pension scheme is therefore exposed to UK inflation changes as well as interest rate risks, investment returns and changes in the life expectancy of pensioners.

The weighted average duration of the defined benefit obligation is 23.0 years (2015: 23.0 years).

The principal actuarial assumptions that apply for the year ended December 31 are as follows:

| **Actuarial assumptions used to determine defined benefit obligations at year-end** | **2016** | 2015 |
|---|---|---|
| **Demographic actuarial assumptions** | | |
| Mortality | UK mortality table [1] | UK mortality table [2] |
| **Financial actuarial assumptions** | | |
| Discount rate | 2.69% | 3.90% |
| Price inflation | 3.37% | 3.10% |

[1] Club Vita tables Scheme memberhsip CMI 2014 1.5%/1.25% p.a.
[2] SAPS S1NA light -2 years CMI 2014 1.50%-1.25% p.a.

The principal actuarial assumptions have an effect on the amounts reported for the defined benefit obligation. A change as indicated in the table below in the principal actuarial assumptions would have the following effects on the defined benefit obligation per year-end:

| | Estimated approximate effects on the defined benefit obligation | |
|---|---|---|
| | **2016** | 2015 |
| **Demographic actuarial assumptions** | | |
| 10% increase in mortality rates | (51) | (37) |
| 10% decrease in mortality rates | 58 | 42 |
| **Financial actuarial assumptions** | | |
| 100 basis points increase in discount rate | (371) | (341) |
| 100 basis points decrease in discount rate | 513 | 470 |
| 100 basis points increase in price inflation | 213 | 192 |
| 100 basis points decrease in price inflation | (289) | (347) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

| | Target allocation of plan assets for retirement benefit plans for the next annual period is: |
|---|---|
| Equity instruments | 35% |
| Debt instruments | 65% |

### All other operating segments

Businesses included in all other operating segments mostly operate defined contribution plans.

## 42 Deferred gains

| | **2016** | 2015 |
|---|---|---|
| At January 1 | 112 | 82 |
| Income deferred | 4 | 40 |
| Disposals | (31) | - |
| Release to income statement | (6) | (14) |
| Net exchange differences | (14) | 4 |
| **At December 31** | **64** | **112** |

## 43 Deferred tax

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | 87 | 25 |
| Deferred tax liabilities | 2,318 | 2,323 |
| **Total net deferred tax liability / (asset)** | **2,230** | **2,298** |

| **Deferred tax assets comprise temporary differences on:** | 2016 | 2015 |
|---|---|---|
| Financial assets | (22) | (5) |
| Insurance and investment contracts | (55) | - |
| Deferred expenses, VOBA and other intangible assets | (148) | 2 |
| Defined benefit plans | 54 | 3 |
| Losses | 221 | 15 |
| Other | 37 | 10 |
| **At December 31** | **87** | **25** |

| **Deferred tax liabilities comprise temporary differences on:** | 2016 | 2015 |
|---|---|---|
| Real estate | 541 | 434 |
| Financial assets | 3,261 | 2,801 |
| Insurance and investment contracts | (3,042) | (2,500) |
| Deferred expenses, VOBA and other intangible assets | 3,150 | 3,009 |
| Defined benefit plans | (592) | (685) |
| Losses | (188) | (485) |
| Other | (812) | (252) |
| **At December 31** | **2,318** | **2,323** |

The following table provides a movement schedule of net deferred tax broken-down by those items for which a deferred tax asset or liability has been recognized.

| | Real estate | Financial assets | Insurance and investment contracts | Deferred expenses, VOBA and other intangible assets | Defined benefit plans | Losses | Other | Total |
|---|---|---|---|---|---|---|---|---|
| At January 1, 2016 | 434 | 2,806 | (2,500) | 3,008 | (688) | (500) | (261) | 2,298 |
| Disposal of a business | - | - | - | - | - | - | - | - |
| Charged to income statement | 99 | 642 | (380) | 222 | 135 | 57 | (543) | 232 |
| Charged to equity | 3 | (264) | (2) | 2 | (85) | - | (2) | (350) |
| Net exchange differences | 5 | 84 | (108) | 69 | (6) | 34 | (45) | 34 |
| Other | - | 15 | 2 | (3) | (1) | 1 | 3 | 16 |
| **At December 31, 2016** | **541** | **3,282** | **(2,988)** | **3,298** | **(645)** | **(409)** | **(849)** | **2,230** |
| At January 1, 2015 | 360 | 3,560 | (3,109) | 3,503 | (668) | (161) | (507) | 2,977 |
| Disposal of a business | - | - | - | (73) | - | - | - | (73) |
| Charged to income statement | 66 | (267) | 889 | (814) | (33) | (327) | 333 | (153) |
| Charged to equity | 2 | (834) | - | - | 81 | - | (1) | (752) |
| Net exchange differences | 6 | 292 | (279) | 360 | (68) | (13) | (55) | 242 |
| Other | - | 56 | (1) | 32 | 1 | 1 | (32) | 56 |
| **At December 31, 2015** | **434** | **2,806** | **(2,500)** | **3,008** | **(688)** | **(500)** | **(261)** | **2,298** |

In 2016, there were considerable movements in the net deferred tax schedule. The major components consists of:

- The increase of deferred tax liability primarily relates to an increase of unrealized profits in respect of financial assets mainly driven by tightening credit spread.
- The movement in Insurance contracts and Intangible assets mainly relates to the reclassification through these categories.
- The increase in Other mainly relates to the deferral of tax credits in 2016.

In 2015, the decrease of deferred income tax liabilities primarily relates to a decrease of unrealized profits in respect of financial assets mainly driven by higher interest rates and widening credit spread.

Deferred corporate income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. For an amount of gross EUR 505 million; tax EUR 90 million (2015: gross EUR 294 million; tax EUR 59 million) the realization of the deferred tax asset is dependent on the projection of future taxable profits from existing business in excess of the profits arising from the reversal of existing taxable temporary differences.

For the following amounts, arranged by loss carry forward periods, the deferred corporate income tax asset is not recognized:

| | Gross amounts [1] | | Not recognized deferred tax assets | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| < 5 years | 101 | 113 | 26 | 28 |
| ≥ 5 – 10 years | 130 | 28 | 16 | 6 |
| ≥ 10 – 15 years | 1 | 94 | 33 | 45 |
| ≥ 15 – 20 years | - | - | - | - |
| Indefinitely | 396 | 605 | 94 | 144 |
| **At December 31** | **628** | **841** | **170** | **222** |

[1] The gross value of state tax loss carry forward is not summarized in the disclosure, due to the fact that the United States files in different state jurisdictions with various applicable tax rates and apportionment rules.

Deferred corporate income tax assets in respect of deductible temporary differences are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. For the following amounts relating to Available-for-sale financial assets, Defined benefit plans and Other items the recognition of the deferred corporate income tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences:

| | Gross amounts | | Deferred tax assets | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Deferred corporate income tax asset dependent on retaining bonds and similar investments until the earlier of market recovery or maturity | 816 | 1,766 | 286 | 617 |
| Deferred corporate income tax asset dependent on the realization of capital profits | - | 558 | - | 195 |
| Deferred corporate income tax asset dependent on future taxable profits | 362 | 52 | 64 | 12 |
| **At December 31** | **1,179** | **2,376** | **350** | **824** |

Aegon did not recognize deferred corporate income tax assets in respect of deductible temporary differences relating to Financial assets and Other items for the amount of gross EUR 70 million; tax EUR 13 million (2015: gross EUR 46 million; tax EUR 9 million).

Deferred corporate income tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. The unremitted earnings totaled gross EUR 1,770 million; tax EUR 441 million (2015: gross EUR 1,769 million; tax EUR 442 million).

All deferred corporate income taxes are non-current by nature.

## 44 Other liabilities

| | 2016 | 2015 |
|---|---|---|
| Payables due to policyholders | 669 | 766 |
| Payables due to brokers and agents | 3,669 | 979 |
| Payables out of reinsurance | 875 | 792 |
| Social security and taxes payable | 144 | 179 |
| Income tax payable | - | 5 |
| Investment creditors | 693 | 180 |
| Cash collateral on derivative transactions | 3,077 | 2,344 |
| Cash collateral on securities lended | 3,299 | 4,232 |
| Repurchase agreements | 1,485 | 1,728 |
| Commercial paper | 128 | 125 |
| Bank overdrafts | 1 | - |
| Other creditors | 2,936 | 2,742 |
| **At December 31** | **16,978** | **14,074** |
| Current | 16,101 | 13,145 |
| Non-current | 877 | 930 |

The carrying amounts disclosed reasonably approximate the fair values at year end, given the predominantly current nature of the other liabilities.

The increase in payables due to brokers and agents compared to prior year is driven by a change in netting. This also affected other receivables (refer to note 30.2 Receivables).

## 45 Accruals

| | 2016 | 2015 |
|---|---|---|
| Accrued interest | 131 | 155 |
| Accrued expenses | 106 | 117 |
| **At December 31** | **237** | **272** |

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

## 46 Capital management and solvency

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

For the insurance and reinsurance undertakings of Aegon in the EU, the European Solvency I directives as implemented in the relevant member states were applicable up to December 31, 2015. As from January 1, 2016 the new Solvency II framework was introduced. The introduction of Solvency II and the implementation of its requirements warranted interpretation and confirmation from supervisory authorities.

As per January 1, 2016 Aegon moved to Solvency II for capital management purposes and redefined its capital measure prospectively. This capital measure is significantly different compared to the Solvency I capital ratio used in 2015. As a consequence these numbers are not included as comparative information for Solvency II related disclosures.

In 2015 Aegon was required to maintain a minimum solvency margin based on applicable local regulations. Aegon's Insurance Group Directive ratio (IGD ratio) was 220% at the end of 2015. This IGD ratio was the last to be reported and filed as Aegon's capitalization is measured on a Solvency II basis as of January 1, 2016. The calculation of the IGD ratio was based on Solvency I capital requirements for entities within the EU (Pillar 1 for Aegon UK), and local regulatory solvency measurements for non-EU entities. Specifically, for the IGD ratio, required capital for the life insurance companies in the US was calculated as two times the upper end of the Company Action Level range (200%) as applied by the National Association of Insurance Commissioners in the United States. The calculation of the IGD ratio excluded the available and required capital of the UK with-profits funds.

### Strategic importance

Aegon's approach towards capital management plays a vital role in supporting the execution of Aegon's strategy. Next to ensuring adequate capitalisation to cover Aegon's obligations towards its customers, Aegon's capital management priorities also include the shift of capital to products that offer higher growth prospects and return prospects, the shift from capital intensive spread business to capital light fee business and Aegon's aim to provide for a sustainable dividend to Aegon's shareholders, which can grow over time if Aegon's performance so allows.

### Management of capital

Disciplined risk and capital management support Aegon's decisions in deploying the capital that is generated in Aegon's businesses and that is provided for by Aegon's investors. Aegon balances the funding of new business growth with the funding required to ensure that Aegon's obligations towards policyholders are always adequately met, and with providing for a sustainable dividend to Aegon's shareholders.

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

Aegon's ERM framework ensures that the Aegon Group and its operating companies are adequately capitalized and that Aegon's obligations towards policyholders are always adequately met. As specific part of this larger framework, Aegon's capital management framework builds on a set of key pillars: the use of internal target capital management zones, an internal target range for the use of gross financial leverage and, supported by robust risk and capital monitoring processes that timely trigger and escalate interventions if and when needed to ensure that capital is always being managed towards these internal target ranges and is prevented from falling below the regulatory minimum capital requirements.

### Capital adequacy

Until 31 December 2015, the Solvency I regulatory capital requirements continued to play a dominant role in the management of Aegon's capital. The introduction of Solvency II on January 1, 2016, meant a change in the regulatory capital requirements in EEA-domiciled legal entities and therefore had an impact on the capitalization levels used to assess capital adequacy of Aegon's EEA-domiciled operating units and for the Aegon Group as a whole. Aegon has updated its target capitalization levels under its capital management framework accordingly.

The capitalization of the Aegon Group and its operating units is managed in relation to the most stringent of local regulatory requirements, rating agency requirements and/or self-imposed criteria. Aegon manages its Solvency II capital in relation to the required capital. Under Aegon's capital management framework the own funds are managed in such a way that the Group Solvency II ratio remains within the target range of 140% – 170%.

### 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 the higher capital requirement, 100% of the SCR, as the level around which EU supervisors will formally require management to provide regulatory recovery plans. For the US insurance entities this is viewed at 100% Company Action Level (CAL).

During 2016, the Aegon Group and all of its regulated entities that are subject to capital requirements on a solo-level continued to comply with the SCR requirements.

### Capital quality

Aegon's capital consists of 3 Tiers that indicate its quality of the capital. It is noted that the Group own funds 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.

The table below shows the Tiers in which Aegon's capital is divided:

| | December 31, 2016 |
|---|---|
| | Available own funds |
| Tier 1 - unrestricted | 10,648 |
| Tier 1 - restricted | 3,817 |
| Tier 2 | 2,008 |
| Tier 3 | 1,638 |
| **Total Tiers** | **18,112** |

At December 31, 2016, Tier 1 capital accounted for 80% of own funds, including EUR 3,309 million of junior perpetual capital securities and EUR 508 million of perpetual cumulative subordinated bonds which are both grandfathered restricted Tier 1 capital.

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.

The grandfathered restricted Tier 1 and Tier 2 capital instruments are grandfathered in order that they are considered as capital under the Solvency II framework for up to 10 years as from January 1, 2016.

It is to be noted that the difference between the amounts mentioned above for junior perpetual capital securities and perpetual cumulative subordinated bonds, and those in note 33 and note 34 to the consolidated financial statements, stem from valuation differences between Solvency II and IFRS-EU (market value versus par value).

Tier 3 capital as of December 31, 2016 comprised of deferred tax asset balances under Solvency II. These balances were mostly related to Aegon Americas and stem from differences between statutory and tax reserve valuation methodologies and the tax deferral of various statutory expenses.

IFRS-EU equity compares to Solvency II own funds as follows:

| | December 31, 2016 |
|---|---|
| Shareholders' Equity | 20,913 |
| IFRS adjustments for Other Equity instruments and non controlling interests | 3,821 |
| Group Equity | 24,734 |
| Solvency II revaluations | (6,422) |
| **Excess of Assets over Liabilities** | **18,312** |
| Availability adjustments | 419 |
| Fungibility restrictions [1)] | (619) |
| **Available own funds** | **18,112** |

[1] Amongst others this contains the exclusion of Aegon Bank.

The revaluation differences stem from the difference in valuation between IFRS-EU and Solvency II frameworks, which can be grouped into three categories:

- Items which are not recognized under Solvency II. The most relevant examples of this category for Aegon include Goodwill, DPAC and other intangible assets (EUR 2,118 million);
- Items which have a different valuation treatment between IFRS-EU and Solvency II. Solvency II is a market consistent framework hence all assets and liabilities are to be presented at fair value while IFRS-EU also includes other valuation treatments in addition to fair value. The most relevant examples of this category for Aegon Group include Loans and Mortgages, Reinsurance Recoverables and Technical provisions. The revaluation difference stemming from this category amounted to EUR (1,918) million compared to the IFRS-EU Statement of Financial Position;
- The Net Asset Value of subsidiaries that are included under Deduction & Aggregation method (on provisional equivalence or Standard Formula basis) in the Group Solvency II results. The revaluation difference stemming from this category amounted to EUR (6,622) million compared to the IFRS-EU Statement of Financial Position.

The availability adjustments are changes to the availability of own funds of Aegon Group due to the Solvency II requirements. Examples of these adjustments are the adjustment for subordinated liabilities, ring-fenced fund, treasury shares and foreseeable dividend (if applicable).

Fungibility restrictions are limitations of the available own funds for Aegon Group enforced by Supervisory Authorities. For Aegon Group, these limitations refer to certain charitable trusts in the Americas for which the local Supervisory Authority could limit the upstream of capital to the Group as well as Aegon Bank which is under a different regulatory regime but under the same Supervisory Authority and therefore excluded for Solvency II.

### Capital leverage

Aegon's total capitalization reflects the capital employed in insurance activities and consists of shareholders' capital and total gross financial leverage. Aegon's gross financial leverage ratio is calculated by dividing total financial leverage by total capitalization. Aegon aims to keep total gross financial leverage within a range of 26% to 30% of total capitalization as measured by the gross financial leverage ratio.

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 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.

On December 31, 2016, Aegon's total capitalization was EUR 24.8 billion (EUR 24.9 billion on December 31, 2015), its gross financial leverage ratio was 29.8% (28.4% on December 31, 2015) and its fixed charge coverage was 7.2x (6.5x on December 31, 2015).

Aegon targets a gross financial leverage ratio of 26-30% and a fixed charge coverage of 6-8x. The following table shows the composition of the total capitalization and the calculation of the gross financial leverage ratio:

| | Note | 2016 | 2015 |
|---|---|---|---|
| Total shareholders' equity - based on IFRS as adopted by the EU | 2 | 20,913 | 22,684 |
| Non-controlling interests, share options and incentive plans not yet exercised | 33, SOFP [2] | 88 | 77 |
| Revaluation reserves | 32 | (5,381) | (6,471) |
| Remeasurement of defined benefit plans | 32 | 1,820 | 1,532 |
| **Shareholders' capital** | | **17,440** | **17,822** |
| Junior perpetual capital securities | 33 | 3,008 | 3,008 |
| Perpetual cumulative subordinated bonds | 33 | 454 | 454 |
| Non-cumulative subordinated notes (Other equity instruments) | 33 | 271 | 271 |
| Fixed floating subordinated notes | 34 | 695 | 694 |
| Non-cumulative subordinated notes (Subordinated borrowings) | 34 | 72 | 65 |
| Trust pass-through securities | 35 | 156 | 157 |
| Currency revaluation other equity instruments [1] | | 340 | 269 |
| **Hybrid leverage** | | **4,996** | **4,918** |
| Senior debt [3] | 39 | 2,414 | 2,015 |
| Commercial paper and other short term debt | 44 | - | 125 |
| **Senior leverage** | | **2,414** | **2,140** |
| **Total gross financial leverage** | | **7,409** | **7,057** |
| **Total capitalization** | | **24,849** | **24,879** |
| **Gross financial leverage ratio** | | **29.8%** | **28.4%** |

[1] Other equity instruments that are denominated in foreign currencies are, for purpose of calculating hybrid leverage, revalued to the period-end exchange rate.
[2] Non-controlling interests are disclosed in the statement of financial position.
[3] Senior debt for the gross financial leverage calculation also contains swaps for an amount of EUR 28 million (2015: EUR nil million).

In 2016, Aegon introduced a non-financial leverage policy. The non-financial leverage policy classifies short-term debt as either financial leverage or non-financial leverage. As from 2016 all short-term debt is assessed accordingly.

Aegon N.V. is subject to certain financial covenants in some of its financial agreements (such as issued debentures, credit facilities and ISDA agreements). Under these financial covenants, an event of default may occur if and when any financial indebtedness of any member of the Group is not paid when due, or not paid within any applicable grace period. The financial agreements may also include

a cross-default provision which may be triggered if and when any financial indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default.

All financial agreements are closely monitored periodically to assess the likelihood of a breach of any financial covenant and the likelihood thereof in the near future. No breach of any such covenant has occurred in 2016.

Aegon N.V. is subject to legal restrictions on the amount of dividends it can pay to its shareholders. Under Dutch law, the amount that is available to pay dividends consists of total shareholders' equity less the issued and outstanding capital and less the reserves required by law. The revaluation account and legal reserves, foreign currency translation reserve and other, cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts. Total distributable reserves under Dutch law amounted to EUR 11,996 million at December 31, 2016 (2015: EUR 12,431 million).

The ability of Aegon's subsidiaries, principally insurance companies, to pay dividends to the holding company is constrained by the need for these subsidiaries to remain adequately capitalized to the levels set by local insurance regulations and governed by local insurance supervisory authorities. Based on the capitalization level of the local subsidiary, local insurance supervisors are able to restrict and/or prohibit the transfer of dividends to the holding company. In addition, the ability of subsidiaries to pay dividends to the holding company can be constrained by the need for these subsidiaries to have sufficient shareholders' equity as determined by law. The capitalization level and shareholders' equity of the subsidiaries 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 subsidiaries to pay dividends, the subsidiaries hold additional capital in excess of the levels required by local insurance regulations, which is reflected in Aegon's target capitalization ranges.

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 subsidiaries to pay dividends to the holding company. In order to ensure the holding company's ability to fulfil its cash obligations and in order to maintain sufficient management flexibility to manage capital and liquidity in support of Aegon's operating units and external dividend stability, it is the Company's policy that the holding excess capital position is managed to a target range of EUR 1.0 to 1.5 billion. For this Aegon takes into account the liquidity in Aegon's centrally managed (unregulated) holding companies.

## 47 Fair value

The estimated fair values of Aegon's assets and liabilities correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Aegon uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. Fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when Aegon determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place 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). Therefore, unobservable inputs reflect Aegon's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Aegon employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which Aegon has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

## Fair value hierarchy

The table below provides an analysis of assets and liabilities recorded at fair value on a recurring basis by level of the fair value hierarchy:

| | Level I | Level II | Level III | **Total 2016** |
|---|---|---|---|---|
| **Assets carried at fair value** | | | | |
| **Available-for-sale** | | | | |
| Shares | 119 | 312 | 393 | 824 |
| Debt securities | 29,386 | 69,702 | 1,966 | 101,054 |
| Money market and other short-term instruments | - | 6,776 | - | 6,776 |
| Other investments at fair value | - | 453 | 754 | 1,206 |
| | **29,504** | **77,243** | **3,112** | **109,860** |
| **Fair value through profit or loss** | | | | |
| Shares | 288 | 152 | 50 | 490 |
| Debt securities | 27 | 2,082 | 6 | 2,115 |
| Money market and other short-term instruments | - | 317 | - | 317 |
| Other investments at fair value | 1 | 961 | 1,257 | 2,219 |
| Investments for account of policyholders [1)] | 125,997 | 75,202 | 1,726 | 202,924 |
| Derivatives | 41 | 8,169 | 108 | 8,318 |
| Investments in real estate | - | - | 1,999 | 1,999 |
| Investments in real estate for policyholders | - | - | 686 | 686 |
| | **126,355** | **86,883** | **5,831** | **219,069** |
| **Revalued amounts** | | | | |
| Real estate held for own use | - | - | 332 | 332 |
| | **-** | **-** | **332** | **332** |
| **Total assets at fair value** | **155,860** | **164,126** | **9,275** | **329,261** |
| **Liabilities carried at fair value** | | | | |
| Investment contracts for account of policyholders [2)] | - | 42,627 | 176 | 42,803 |
| Borrowings [3)] | - | 610 | - | 610 |
| Derivatives | 64 | 6,347 | 2,467 | 8,878 |
| **Total liabilities at fair value** | **64** | **49,584** | **2,643** | **52,290** |

[1] The investments for account of policyholders included in the table above only include investments carried at fair value through profit or loss.
[2] The investment contracts for account of policyholders included in the table above represents only those investment contracts carried at fair value.
[3] Total borrowings on the statement of financial position contain borrowings carried at amortized cost that are not included in the above schedule.

Note that the investment contracts for account of policyholders previously reported as Level I have been reclassified to Level II, as the value of these liabilities is directly derived from the fair value of the linked investments for account of policyholders. The comparative numbers have been adjusted accordingly. These reclassifications had no effect on net income, shareholders' equity or earnings per share.

| | Level I | Level II | Level III | Total 2015 |
|---|---|---|---|---|
| **Assets carried at fair value** | | | | |
| **Available-for-sale** | | | | |
| Shares | 29 | 498 | 293 | 820 |
| Debt securities | 28,701 | 72,307 | 4,144 | 105,151 |
| Money market and other short-term instruments | - | 7,141 | - | 7,141 |
| Other investments at fair value | 31 | 337 | 928 | 1,297 |
| | **28,761** | **80,283** | **5,365** | **114,409** |
| **Fair value through profit or loss** | | | | |
| Shares | 254 | 385 | - | 640 |
| Debt securities | 16 | 2,217 | 6 | 2,239 |
| Money market and other short-term instruments | - | 303 | - | 303 |
| Other investments at fair value | 2 | 1,368 | 1,265 | 2,635 |
| Investments for account of policyholders [1] | 121,227 | 76,232 | 1,745 | 199,204 |
| Derivatives | 54 | 11,270 | 222 | 11,545 |
| Investments in real estate | - | - | 1,990 | 1,990 |
| Investments in real estate for policyholders | - | - | 1,022 | 1,022 |
| | **121,552** | **91,775** | **6,250** | **219,577** |
| **Revalued amounts** | | | | |
| Real estate held for own use | - | - | 338 | 338 |
| | **-** | **-** | **338** | **338** |
| **Total assets at fair value** | **150,313** | **172,058** | **11,954** | **334,325** |
| **Liabilities carried at fair value** | | | | |
| Investment contracts for account of policyholders [2] | - | 40,209 | 156 | 40,365 |
| Borrowings [3] | - | 617 | - | 617 |
| Derivatives | 4 | 8,782 | 2,104 | 10,890 |
| **Total liabilities at fair value** | **16,946** | **32,665** | **2,260** | **51,871** |

[1] The investments for account of policyholders included in the table above only include investments carried at fair value through profit or loss.
[2] The investment contracts for account of policyholders included in the table above represents only those investment contracts carried at fair value.
[3] Total borrowings on the statement of financial position contain borrowings carried at amortized cost that are not included in the above schedule.

### Significant transfers between Level I, Level II and Level III

Aegon's policy is to record transfers of assets and liabilities between Level I, Level II and Level III at their fair values as of the beginning of each reporting period.

The table below shows transfers between Level I and Level II for financial assets and financial liabilities recorded at fair value on a recurring basis.

| | **Total 2016** | | Total 2015 | |
|---|---|---|---|---|
| | **Transfers Level I to Level II** | **Transfers Level II to Level I** | Transfers Level I to Level II | Transfers Level II to Level I |
| **Assets carried at fair value** | | | | |
| **Available-for-sale** | | | | |
| Debt securities | 5 | 69 | 14 | 156 |
| | **5** | **69** | **14** | **156** |
| **Fair value through profit or loss** | | | | |
| Shares | - | - | - | 40 |
| Investments for account of policyholders | 3 | (1) | (3) | 209 |
| | **3** | **(1)** | **(3)** | **248** |
| **Total assets at fair value** | **8** | **68** | **11** | **405** |

Transfers are identified based on transaction volume and frequency, which are indicative of an active market.

## Movements in Level III financial instruments measured at fair value

The following table summarizes the change of all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level III), including realized and unrealized gains (losses) of all assets and liabilities and unrealized gains (losses) of all assets and liabilities still held at the end of the respective period.

| Assets carried at fair value | At January 1, 2016 | Total gains / losses in income statement [1] | Total gains / losses in OCI [2] | Purchases | Sales | Settlements | Net exchange difference | Reclassification | Transfers from levels I and II | Transfers to levels I and II | Transfers to disposal groups | At December 31, 2016 | Total unrealized gains and (losses) for the period recorded in the P&L for instruments held at December 31, 2016 [3] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Available-for-sale** | | | | | | | | | | | | | |
| Shares | 293 | 27 | (7) | 161 | (92) | (1) | 11 | - | - | - | - | 393 | - |
| Debt securities | 4,144 | 1 | 92 | 443 | (262) | (287) | 39 | - | 651 | (2,854) | - | 1,966 | - |
| Other investments at fair value | 928 | (177) | 20 | 240 | (133) | (141) | 18 | - | - | (1) | - | 754 | - |
| | **5,365** | **(150)** | **105** | **845** | **(487)** | **(429)** | **68** | **-** | **651** | **(2,856)** | **-** | **3,112** | **-** |
| **Fair value through profit or loss** | | | | | | | | | | | | | |
| Shares | - | 3 | - | 48 | - | - | - | - | - | - | - | 50 | 3 |
| Debt securities | 6 | (1) | - | - | - | - | - | - | - | - | - | 6 | - |
| Other investments a fair value | 1,265 | (44) | - | 178 | (277) | - | 35 | - | 419 | (321) | - | 1,257 | (42) |
| Investments for account of policyholders | 1,745 | 22 | - | 469 | (395) | - | (35) | - | 8 | (88) | - | 1,726 | 23 |
| Derivatives | 222 | (285) | - | 75 | 108 | - | (12) | - | - | - | - | 108 | (287) |
| Investments in real estate | 1,990 | 70 | - | 120 | (215) | - | 19 | 15 | - | - | - | 1,999 | 118 |
| Investments in real estate for policyholders | 1,022 | (26) | - | 81 | (260) | - | (131) | - | - | - | - | 686 | 22 |
| | **6,250** | **(261)** | **-** | **971** | **(1,039)** | **-** | **(123)** | **15** | **427** | **(409)** | **-** | **5,831** | **(163)** |
| **Revalued amounts** | | | | | | | | | | | | | |
| Real estate held for own use | 338 | (9) | 8 | 5 | - | - | 6 | (15) | - | - | - | 332 | 5 |
| | **338** | **(9)** | **8** | **5** | **-** | **-** | **6** | **(15)** | **-** | **-** | **-** | **332** | **5** |
| **Total assets at fair value** | **11,954** | **(420)** | **113** | **1,821** | **(1,527)** | **(429)** | **(49)** | **-** | **1,077** | **(3,264)** | **-** | **9,275** | **(159)** |
| **Liabilities carried at fair value** | | | | | | | | | | | | | |
| Investment contracts for account of policyholders | 156 | (14) | - | 45 | (12) | - | 2 | - | - | (2) | - | 176 | 1 |
| Derivatives | 2,104 | 542 | - | - | (207) | - | 28 | - | - | - | - | 2,467 | 562 |
| | **2,260** | **528** | **-** | **45** | **(219)** | **-** | **31** | **-** | **-** | **(2)** | **-** | **2,643** | **563** |

[1] Includes impairments and movements related to fair value hedges. Gains and losses are recorded in the line item Results from financial transactions of the income statement.

[2] Total gains and losses are recorded in line items: Gains / (losses) on revaluation of available-for-sale investments, (Gains) / losses transferred to the income statement on disposal and impairment of available-for-sale investments and Changes in revaluation reserve real estate held for own use of the statement of other comprehensive income.

[3] Total gains / (losses) for the period during which the financial instrument was in Level III.

| Assets carried at fair value | At January 1, 2015 | Total gains / losses in income statement [1] | Total gains / losses in OCI [2] | Purchases | Sales | Settlements | Net exchange difference | Reclassification | Transfers from levels I and II | Transfers to levels I and II | Transfers to disposal groups | At December 31, 2015 | Total unrealized gains and losses for the period recorded in the P&L for instruments held at December 31, 2015 [3] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Available-for-sale** | | | | | | | | | | | | | |
| Shares | 280 | 32 | 30 | 92 | (124) | (33) | 16 | - | - | - | - | 293 | - |
| Debt securities | 3,803 | (2) | 29 | 842 | (367) | (198) | 212 | - | 182 | (359) | - | 4,144 | - |
| Other investments at fair value | 934 | (206) | 9 | 179 | (72) | (18) | 102 | - | - | - | - | 928 | - |
| | **5,018** | **(176)** | **69** | **1,113** | **(563)** | **(249)** | **330** | **-** | **182** | **(359)** | **-** | **5,365** | **-** |
| **Fair value through profit or loss** | | | | | | | | | | | | | |
| Debt securities | 17 | - | - | - | (2) | - | 2 | - | - | (9) | - | 6 | - |
| Other investments at fair value | 1,237 | (20) | - | 179 | (397) | - | 139 | - | 291 | (162) | - | 1,265 | 17 |
| Investments for account of policyholders | 1,956 | 126 | - | 486 | (773) | - | 33 | - | - | (83) | - | 1,745 | 85 |
| Derivatives | 320 | (173) | - | 12 | 48 | - | 15 | - | - | - | - | 222 | (176) |
| Investments in real estate | 1,792 | 145 | - | 133 | (163) | - | 83 | - | - | - | - | 1,990 | 15 |
| Investments in real estate for policyholders | 1,101 | 67 | - | 280 | (488) | - | 60 | - | - | - | - | 1,022 | 59 |
| | **6,423** | **146** | **-** | **1,090** | **(1,775)** | **-** | **332** | **-** | **291** | **(255)** | **-** | **6,250** | **-** |
| **Revalued amounts** | | | | | | | | | | | | | |
| Real estate held for own use | 293 | (2) | 8 | 21 | - | - | 19 | - | - | - | - | 338 | (2) |
| | **293** | **(2)** | **8** | **21** | **-** | **-** | **19** | **-** | **-** | **-** | **-** | **338** | **(2)** |
| **Total assets at fair value** | **11,734** | **(32)** | **77** | **2,224** | **(2,339)** | **(249)** | **681** | **-** | **473** | **(614)** | **-** | **11,954** | **(2)** |
| **Liabilities carried at fair value** | | | | | | | | | | | | | |
| Investment contracts for account of policyholders | 165 | 3 | - | 12 | (34) | - | 14 | - | - | (5) | - | 156 | 3 |
| Derivatives | 3,010 | (925) | - | - | (98) | - | 116 | - | - | - | - | 2,104 | (972) |
| | **3,175** | **(922)** | **-** | **13** | **(131)** | **-** | **131** | **-** | **-** | **(5)** | **-** | **2,260** | **(969)** |

[1] Includes impairments and movements related to fair value hedges. Gains and losses are recorded in the line item Results from financial transactions of the income statement.

[2] Total gains and losses are recorded in line items: Gains / (losses) on revaluation of available-for-sale investments, (Gains) / losses transferred to the income statement on disposal and impairment of available-for-sale investments and Changes in revaluation reserve real estate held for own use of the statement of other comprehensive income.

[3] Total gains / (losses) for the period during which the financial instrument was in Level III.

During 2016, Aegon transferred certain financial instruments from Level II to Level III of the fair value hierarchy. The reason for the change in level was that the market liquidity for these securities decreased, which led to a change in market observability of prices. Prior to transfer, the fair value for the Level II securities was determined using observable market transactions or corroborated broker quotes respectively for the same or similar instruments. The amount of assets and liabilities transferred to Level III was EUR 1,077 million (2015: EUR 473 million). Since the transfer, all such assets have been valued using valuation models incorporating significant non market-observable inputs or uncorroborated broker quotes.

Similarly, during 2016, Aegon transferred EUR 3,266 million (full year 2015: EUR 619 million) of financial instruments from Level III to other levels of the fair value hierarchy. The change in level was mainly the result of a return of activity in the market for these securities and that for these securities the fair value could be determined using observable market transactions or corroborated broker quotes for the same or similar instruments.

## Valuation techniques and significant unobservable inputs

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level III financial instruments.

| | Valuation technique [1] | Significant unobservable input [2] | December 31, 2016 | Range (weighted average) | December 31, 2015 | Range (weighted average) |
|---|---|---|---|---|---|---|
| **Assets carried at fair value** | | | | | | |
| **Available-for-sale** | | | | | | |
| Shares | Net asset value [3] | n.a. | 262 | n.a. | 132 | n.a. |
| | Other | n.a. | 131 | n.a. | 161 | n.a. |
| | | | **393** | | **293** | |
| **Debt securities** | | | | | | |
| | Broker quote | n.a. | 1,389 | n.a. | 3,640 | n.a. |
| | Discounted cash flow | Credit spread | 221 | 1.30% - 3.37% (3.08%) | 219 | 1.5% - 3.8% (2.8%) |
| | Other | n.a. | 355 | n.a. | 285 | n.a. |
| | | | **1,966** | | **4,144** | |
| **Other investments at fair value** | | | | | | |
| Tax credit investments | Discounted cash flow | Discount rate | 676 | 5.6% | 785 | 7.4% |
| Investment funds | Net asset value [3] | n.a. | 45 | n.a. | 97 | n.a. |
| Other | Other | n.a. | 32 | n.a. | 45 | n.a. |
| | | | **754** | | **928** | |
| **At December 31** | | | **3,112** | | **5,365** | |
| **Fair value through profit or loss** | | | | | | |
| Shares | Other | n.a. | 50 | n.a. | - | n.a. |
| Debt securities | Other | n.a. | 6 | n.a. | 6 | n.a. |
| | | | **56** | | **6** | |
| **Other investments at fair value** | | | | | | |
| Investment funds | Net asset value [3] | n.a. | 1,252 | n.a. | 1,260 | n.a. |
| Other | Other | n.a. | 5 | n.a. | 6 | n.a. |
| | | | **1,257** | | **1,265** | |
| **Derivatives [3]** | | | | | | |
| Longevity swap | Discounted cash flow | Mortality | 27 | n.a. | 86 | n.a. |
| Longevity swap | Discounted cash flow | Risk free rate | 73 | -/- 0.21% - 1.67% (1.01%) | - | n.a. |
| Other | Other | n.a. | 4 | n.a. | 23 | n.a. |
| | | | **104** | | **109** | |
| **Real estate** | | | | | | |
| Investments in real estate | Direct capitalization technique | Capitalization rate | 568 | 4.8% - 10.5% (6.3%) | 640 | 4.8% - 10.5% (6.3%) |
| | Appraisal value | n.a. | 1,237 | n.a. | 1,148 | n.a. |
| | Other | n.a. | 193 | n.a. | 202 | n.a. |
| | | | **1,999** | | **1,990** | |
| **At December 31** | | | **3,415** | | **3,370** | |
| **Revalued amounts** | | | | | | |
| Real estate held for own use | Direct capitalization technique | Capitalization rate | 178 | 6.5% - 9.5% (7.9%) | 163 | 6.5% - 9.5% (7.9%) |
| | Appraisal value | n.a. | 120 | n.a. | 116 | n.a. |
| | Other | n.a. | 34 | n.a. | 60 | n.a. |
| **At December 31** | | | **332** | | **338** | |
| **Total assets at fair value [4]** | | | **6,859** | | **9,073** | |
| **Liabilities carried at fair value** | | | | | | |
| **Derivatives** | | | | | | |
| Embedded derivatives in insurance contracts | Discounted cash flow | Own credit spread | 2,083 | 0.4% - 0.5% (0.4%) | 2,072 | 0.3% - 0.4% (0.3%) |
| Other | Other | n.a. | 384 | n.a. | 32 | n.a. |
| **Total liabilities at fair value** | | | **2,467** | | **2,104** | |

[1] Other in the table above (column Valuation technique) includes investments for which the fair value is uncorroborated and no broker quote is received.
[2] Not applicable (n.a.) has been included when no significant unobservable assumption has been identified.
[3] Net asset value is considered the best approximation to the fair value of these financial instruments.
[4] Investments for account of policyholders are excluded from the table above and from the disclosure regarding reasonably possible alternative assumptions. Policyholder assets, and their returns, belong to policyholders and do not impact Aegon's net income or equity. The effect on total assets is offset by the effect on total liabilities. Derivatives exclude derivatives for account of policyholders amounting to EUR 4 million (2015: EUR 113).

For reference purposes, the valuation techniques included in the table above are described in more detail on the following pages.

### Effect of changes in significant unobservable assumptions to reasonably possible alternatives

From all significant unobservable inputs, own credit spread as included in the discount rate for embedded derivatives in insurance contracts is considered significant. It is estimated that changing the other significant unobservable inputs to reflect reasonable possible alternatives in valuation would have no significant impact for the Group.

An increase in own credit spread results in lower valuation, while a decrease results in a higher valuation of the embedded derivatives.

The table below presents the impact on a fair value measurement of a change in the own credit spread by 20 basis points included in the discount rate.

| | December 31, 2016 | Effect of reasonably possible alternative assumptions (+/-) | | December 31, 2015 | Effect of reasonably possible alternative assumptions (+/-) | |
|---|---|---|---|---|---|---|
| | | Increase | Decrease | | Increase | Decrease |
| **Financial liabilities carried at fair value** | | | | | | |
| Embedded derivatives in insurance contracts | 2,083 | 205 | (194) | 2,072 | 196 | (187) |

### Fair value information about assets and liabilities not measured at fair value

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities which are carried at fair value on a recurring basis.

| | Carrying amount December 31, 2016 | Estimated fair value hierarchy | | | Total estimated fair value December 31, 2016 |
|---|---|---|---|---|---|
| **2016** | | Level I | Level II | Level III | |
| **Assets** | | | | | |
| Mortgage loans - held at amortized cost | 34,206 | - | - | 38,498 | 38,499 |
| Private loans - held at amortized cost | 3,166 | - | 52 | 3,516 | 3,569 |
| Other loans - held at amortized cost | 2,441 | - | 2,292 | 148 | 2,441 |
| **Liabilities** | | | | | |
| Subordinated borrowings - held at amortized cost | 767 | 703 | 140 | - | 844 |
| Trust pass-through securities - held at amortized cost | 156 | - | 141 | - | 141 |
| Borrowings – held at amortized cost | 12,543 | 2,138 | 31 | 10,766 | 12,935 |
| Investment contracts - held at amortized cost | 19,217 | - | 8,951 | 10,797 | 19,748 |

| | Carrying amount December 31, 2015 | Estimated fair value hierarchy | | | Total estimated fair value December 31, 2015 |
|---|---|---|---|---|---|
| **2015** | | Level I | Level II | Level III | |
| **Assets** | | | | | |
| Mortgage loans - held at amortized cost | 33,214 | - | - | 37,648 | 37,648 |
| Private loans - held at amortized cost | 2,847 | - | 79 | 3,086 | 3,165 |
| Other loans - held at amortized cost | 2,517 | - | 2,301 | 215 | 2,517 |
| **Liabilities** | | | | | |
| Subordinated borrowings - held at amortized cost | 759 | 681 | 147 | - | 828 |
| Trust pass-through securities - held at amortized cost | 157 | - | 146 | - | 146 |
| Borrowings – held at amortized cost | 11,829 | 1,735 | 706 | 9,753 | 12,194 |
| Investment contracts - held at amortized cost | 17,260 | - | 7,219 | 10,641 | 17,860 |

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivable, short-term liabilities, and accrued liabilities. These instruments are not included in the table above.

## Fair value measurement

The description of Aegon's methods of determining fair value and the valuation techniques are described on the following pages.

### Shares

When available, Aegon uses quoted market prices in active markets to determine the fair value of its investments in shares. Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Adjustments for lack of liquidity are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

Available-for-sale shares include shares in a Federal Home Loan Bank (FHLB) for an amount of EUR 237 million (2015: EUR 120 million), which are reported as part of the line-item Net asset value. A FHLB has implicit financial support from the United States government. The redemption value of the shares is fixed at par and they can only be redeemed by the FHLB.

### Real estate funds, private equity funds and hedge funds

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers. Aegon reviews the valuations each month and performs analytical procedures and trending analyses to ensure the fair values are appropriate. The net asset value is considered the best valuation method that approximates the fair value of the funds.

### Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon's valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third-party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process, Aegon assesses the appropriateness of each quote (i.e. as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services Aegon reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and reviewed for reasonableness. In addition, Aegon performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that Aegon can corroborate detailed information such as assumptions, inputs and methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service makes adjustments for the elapsed time from the trade date to the reporting date to take into account available market information. Lacking recently reported trades, third-party pricing services and brokers will use modeling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate.

Periodically, Aegon performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. Aegon's asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or unpriced securities.

Additionally, Aegon performs back testing on a sample basis. Back testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the price used for financial reporting and the transaction price are investigated to explain the cause of the difference.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining Aegon's view of the risk associated with each security. However, Aegon does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon's view of the risks associated with each security.

Aegon's portfolio of private placement securities (held at fair value under the classification of available-for-sale or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Aegon's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and a liquidity premium to account for the illiquid nature of these securities. The liquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the liquidity premium for private placement securities to the overall valuation is insignificant.

Aegon's portfolio of debt securities can be subdivided in Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset-backed securities (ABS), Corporate bonds and Government debt. Below relevant details in the valuation methodology for these specific types of debt securities are described.

#### Residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities

Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices and follows with third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities of corroboration of the market prices. If no market prices are available, Aegon uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is liquidity premium which is embedded in the discount rate.

#### Corporate bonds

Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibility of corroboration of market prices when available. If no market prices are available, valuations are determined by a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Aegon starts by taking an observable credit spread from a similar bond of the given issuer, and then adjust this spread based on unobservable inputs. These unobservable inputs may include subordination, liquidity and maturity differences. The weighted average credit spread used in valuation of corporate bonds has increased to 3.1% (December 31, 2015: 2.8%).

#### Government debt

When available, Aegon uses quoted market prices in active markets to determine the fair value of its government debt investments. When Aegon cannot make use of quoted market prices, market prices from indices or quotes from third-party pricing services or brokers are used.

### Tax credit investments

The fair value of tax credit investments is determined by using a discounted cash flow valuation technique. This valuation technique takes into consideration projections of future capital contributions and distributions, as well as future tax credits and the tax benefits of future operating losses. The present value of these cash flows is calculated by applying a discount rate. In general, the discount rate is determined based on the cash outflows for the investments and the cash inflows from the tax credits and/or tax benefits (and the timing of these cash flows). These inputs are unobservable in the market place. The discount rate used in valuation of tax credit investments has decreased to 5.6% (December 31, 2015: 7.4%).

### Mortgage loans, policy loans and private loans *(held at amortized cost)*

For private loans, fixed interest mortgage loans and other loans originated by the Group, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed interest mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse

assumptions (unobservable inputs), liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would decrease the fair value of the mortgage loan portfolio.

The fair value of floating interest rate mortgage loans, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

### Money market and other short-term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

### Derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

Some OTC derivatives are so-called longevity derivatives. The payout of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected payouts of the derivative plus a risk margin. The best estimate of expected payouts is determined using best estimate of mortality developments. Aegon determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. Depending on the duration of the longevity swaps either the projected mortality development or discount rate are the most significant unobservable inputs.

Aegon normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA master netting agreements for each of the Group's legal entities to facilitate Aegon's right to offset credit risk exposure. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

### Embedded derivatives in insurance contracts including guarantees

Bifurcated guarantees for minimum benefits in insurance and investment contracts are carried at fair value. These guarantees include Guaranteed minimum withdrawal benefits (GMWB) in the United States and United Kingdom which are offered on some variable annuity products and are also assumed from a ceding company; minimum investment return guarantees on insurance products offered in the Netherlands, including group pension and traditional products; variable annuities sold in Europe. Additionally, Aegon offers guarantees on variable annuities sold through its joint venture in Japan.

Since the price of these guarantees is not quoted in any market, the fair values of these guarantees are based on discounted cash flows calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic models under a variety of market return scenarios. A variety of factors are considered, including own credit spread, expected market rates of return, equity and interest rate volatility, correlations of market returns, discount rates and actuarial assumptions. The most significant unobservable factor is own credit spread. The weighted average own credit spread used in the valuations of embedded derivatives in insurance contracts increased to 0.4% (2015: 0.3%).

The expected returns are based on risk-free rates. Aegon added a premium to reflect the credit spread as required. The credit spread is set by using the Credit default swap (CDS) spreads of a reference portfolio of life insurance companies (including Aegon), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments over other creditors). Aegon's assumptions are set by region to reflect differences in the valuation of the guarantee embedded in the insurance contracts.

Aegon extrapolates yield curves beyond market observable maturities. The discount rates converge linearly in 10 years to an Ultimate Forward Rate of 4.25% from the last liquid point. The uniform last liquid point for all Aegon's major currencies (EUR, USD and GBP) is set at 30 years.

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy. Refer to note 38 Guarantees in insurance contracts for more details about Aegon's guarantees.

### Real estate

Valuations of both investments in real estate and real estate held for own use are conducted in full by independent external appraisers at least every three to five years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the reporting date. Appraisals are different for each specific local market, but are based on market guidelines such as International Valuation Standards, Uniform Standards of Professional Appraisal Practice or guidelines issued by the Investment Property Databank. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the value that the property's net earning power will support, the value indicated by recent sales of comparable properties and the current cost of reproducing or replacing the property. Discount rates used in the valuation of real estate reflect the risk embedded in the projected cash flows for the asset being valued. Capitalization rates represent the income rate for a real estate property that reflects the relationship between a single year's net operating income expectancy and the total property price or value. For property held for own use, appraisers consider the present value of the future rental income cash flows that could be achieved had the real estate been rented to a third party.

### Investment contracts

Investment contracts issued by Aegon are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling or in relation to the unit price of the underlying assets. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments.

Similar to embedded derivatives in insurance contracts, certain investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic or similar techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Interbank Offered Rate (LIBOR) swap rates and associated forward rates, the Overnight Index Swap (OIS) curve or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. Correlations of market returns for various underlying indices are based on observed market returns and their inter-relationships over a number of years preceding the valuation date. Current risk-free spot rates are used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

### Trust pass-through securities and subordinated borrowings

Trust pass-through securities and subordinated borrowings are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). For the determination of the fair value of these instruments, the level hierarchy as described by IFRS-EU is used.

The preferred method of obtaining the fair value of the fair value option bonds is the quoted price (Level I). In case markets are less liquid or the quoted prices are not available, an internal model is used, based on parameters which are market observable (Level II). Aegon uses a discounted cash flow method including yield curves such as deposit rates, floating rates and 3-month swap rates. In addition, Aegon includes own credit spread based on Aegon's credit default swap curve.

### Summary of total financial assets and financial liabilities at fair value through profit or loss

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Trading** | **Designated** | Trading | Designated |
| Investments for general account | 66 | 5,076 | 74 | 5,742 |
| Investments for account of policyholders | - | 202,924 | - | 199,204 |
| Derivatives with positive values not designated as hedges | 6,918 | - | 9,885 | - |
| **Total financial assets at fair value through profit or loss** | **6,984** | **208,001** | **9,959** | **204,947** |
| Investment contracts for account of policyholders | - | 42,803 | - | 40,365 |
| Derivatives with negative values not designated as hedges | 7,926 | - | 9,852 | - |
| Borrowings | - | 610 | - | 617 |
| **Total financial liabilities at fair value through profit or loss** | **7,926** | **43,413** | **9,852** | **40,981** |

### Investments for general account

The Group manages certain portfolios on a total return basis which have been designated at fair value through profit or loss. This includes portfolios of investments in limited partnerships and limited liability companies (primarily hedge funds) for which the performance is assessed internally on a total return basis. In addition, some investments that include an embedded derivative that would otherwise have required bifurcation, such as convertible instruments, preferred shares and credit linked notes, have been designated at fair value through profit or loss.

Investments for general account backing insurance and investment liabilities, that are carried at fair value with changes in the fair value recognized in the income statement, are designated at fair value through profit or loss. The Group elected to designate these investments at fair value through profit or loss, as a classification of financial assets as available-for-sale would result in accumulation of unrealized gains and losses in a revaluation reserve within equity, while changes to the liability would be reflected in net income (accounting mismatch).

### Investments for account of policyholders

Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer. Under the Group's accounting policies these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement. To avoid an accounting mismatch the linked assets have been designated as at fair value through profit or loss.

In addition, the investment for account of policyholders include with profit assets, where an insurer manages these assets together with related liabilities on a fair value basis in accordance with a documented policy of asset and liability management. In accordance with the Group's accounting policies, these assets have been designated as at fair value through profit or loss.

### Investment contracts for account of policyholders

With the exception of the financial liabilities with discretionary participating features that are not subject to the classification and measurement requirements for financial instruments, all investment contracts for account of policyholders that are carried at fair value or at the fair value of the linked assets are included in the table above.

### Derivatives

With the exception of derivatives designated as a hedging instrument, all derivatives held for general account and held for account of policyholders are included in the table above.

### Borrowings

Borrowings designated as at fair value through profit or loss includes financial instruments that are managed on a fair value basis together with related financial assets and financial derivatives (note 39 Borrowings).

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Trading** | **Designated** | Trading | Designated |
| Net gains and (losses) | 6,685 | 8,815 | (1,350) | 1,228 |

No loans and receivables were designated at fair value through profit or loss.

Changes in the fair value of investment contracts for account of policyholders designated at fair value through profit or loss were not attributable to changes in Aegon's credit spread. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

Refer to note 39 Borrowings for the impact of Aegon's own credit spread on the fair value of the borrowings designated at fair value through profit or loss.

## 48 Commitments and contingencies

### Investments contracted

In the normal course of business, the Group has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2016. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the consolidated statement of financial position.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Purchase** | **Sale** | Purchase | Sale |
| Real estate | - | 44 | - | 70 |
| Mortgage loans | 424 | 78 | 488 | 56 |
| Private loans | 44 | - | 98 | - |
| Other | 1,314 | - | 670 | - |

Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans. Private loans represents deals on Aegon's portfolio of private placement securities that Aegon has committed to, but have not yet settled and funded. Other commitments include future purchases of interests in investment funds and limited partnerships. In 2016 the other commitments increased due to a higher level of new limited partnership commitments and higher investments in tax credits.

### Other commitments and contingencies

| | **2016** | 2015 |
|---|---|---|
| Guarantees | 682 | 708 |
| Standby letters of credit | 29 | 29 |
| Share of contingent liabilities incurred in relation to interests in joint ventures | 40 | 27 |
| Other guarantees | 18 | 24 |
| Other commitments and contingent liabilities | 12 | 20 |

Guarantees include those guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States. Standby letters of credit amounts reflected above are the liquidity commitment notional amounts. In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

### Contractual obligations

An Aegon N.V. indirect US life subsidiary has a net worth maintenance agreement with its subsidiary Transamerica Life (Bermuda) Ltd, pursuant to which Transamerica Life Insurance Company, a US life insurance subsidiary, will provide capital sufficient to maintain a S&P 'AA' financial strength rating and capital sufficient to comply with the requirements of the countries in which its branches are located.

Transamerica Corporation, a wholly-owned subsidiary of Aegon N.V., has provided a parental guarantee to TLIC Riverwood Reinsurance, Inc. (TRRI), an affiliated captive reinsurer, for the cash payments required fulfilling reinsurance payments to Transamerica Life Insurance Company, to the extent that the assets in the captive (TRRI) are not sufficient to cover reinsurance obligations. As of December 31, 2016, this amounted to EUR 2,002 million (2015 EUR: 1,842 million).

Aegon N.V. entered into a contingent capital letter for an amount of JPY 6 billion (EUR 49 million) to support its joint venture Aegon Sony Life Insurance Company meeting local statutory requirements.

Aegon N.V. has guaranteed and is severally liable for the following:

- Due and punctual payment of payables due under letter of credit agreements applied for by Aegon N.V. as co-applicant with its captive insurance companies that are subsidiaries of Transamerica Corporation and Commonwealth General Corporation. At December 31, 2016, the letter of credit arrangements utilized by captives to provide collateral to affiliates amounted to EUR 3,720 million (2015: EUR 3,750 million); as of that date no amounts had been drawn, or were due under these facilities. Other letter of credit arrangements for subsidiaries amounted to EUR 104 million (2015: EUR 235 million); as of that date no amounts had been drawn, or were due under these facilities;
- Due and punctual payment of payables due under letter of credit agreements or guarantees provided for subsidiaries of Transamerica Corporation at December 31, 2016 amounted to EUR 3,563 million (2015: EUR 3,467 million). As of that date no amounts had been drawn, or were due under letter of credit facilities. The guarantees partly related to debt amounted to EUR 1,505 million (2015: EUR 1,448 million) and is included in the Operational funding table in note 39 Borrowings of the consolidated financial statements of the Group in the line 'USD 1.54 billion Variable Funding Surplus Note';
- Due and punctual payment of payables by the consolidated group companies Transamerica Corporation, Aegon Funding Company LLC and Commonwealth General Corporation with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs amounted to EUR 633 million (2015: EUR 615 million); and
- Due and punctual payment of any amounts owed to third parties by the consolidated group company Aegon Derivatives N.V. in connection with derivative transactions. Aegon Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements, including collateral support annex agreements, have been agreed. Net (credit) exposure on derivative transactions with these counterparties was therefore limited as of December 31, 2016.

### Legal and arbitration proceedings, regulatory investigations and actions

Aegon faces significant risks of litigation as well as regulatory investigations and actions relating to its and its subsidiaries' insurance, pensions, securities, investment management, investment advisory and annuities businesses as well as Aegon's corporate compliance, including compliance with employment, sanctions, anti-corruption and tax regulations.

Aegon subsidiaries regularly receive inquiries from local regulators and policyholder advocates in various jurisdictions, including the United States, the Netherlands, and the United Kingdom. In some cases, Aegon subsidiaries have modified business practices in response to inquiries or findings of inquiries. Regulators may seek fines or penalties, or changes to the way Aegon operates.

Insurance companies are routinely subject to litigation, investigation and governmental review concerning transparency and adequacy of disclosure, particularly regarding product fees and costs, including initial costs, ongoing costs, and costs due on policy surrender as well as changes to costs over time; employment or distribution relationships; operational controls and processes; environmental matters; competition and antitrust matters; data privacy; information security; intellectual property; and anti-money laundering, anti-bribery and economic sanctions compliance.

Many of Aegon's products are affected by fluctuations in equity markets as well as interest rate movements, which may prove to be volatile or disappointing to customers. Significant investment risks are often borne by the customer. Disputes and investigations initiated by governmental entities and private parties may lead to orders or settlements including payments or changes to business practices even if Aegon believes the underlying claims are without merit.

The existence of potential claims may remain unknown for long periods of time after the events giving rise to such claims. Determining the likelihood of exposure to Aegon and the extent of any such exposure may not be possible for long periods of time after Aegon becomes aware of such potential claims. Once litigation is initiated, it may be protracted and subject to multiple levels of appeal.

Aegon cannot predict the effect of litigation, investigations or other actions on its businesses or the insurance industry. In some jurisdictions, plaintiffs may seek recovery of very large or indeterminate amounts under claims of bad faith, resulting in punitive or treble damages. Damages alleged may not be quantifiable or supportable, or may have no relationship to economic losses or final awards. Separate from financial loss, litigation, regulatory action, legislative changes or changes in public opinion may require Aegon to change its business practices, which could have a material adverse impact on Aegon's businesses, results of operations, cash flows and financial position.

Aegon has defended and will continue to defend itself vigorously when it believes claims are without merit. Aegon has also settled and will seek to settle certain claims, including through policy modifications, as it believes appropriate. While Aegon intends to resist claims, there can be no assurance that claims brought against Aegon will not have a material adverse impact on its businesses, results of operations, and financial position.

### Proceedings in which Aegon is involved

Aegon and other US insurers have been sued for charging fees on products offered in 401(k) platforms which allegedly were higher than fees charged on other products available in the market. The principal case is currently on interlocutory appeal. US insurers, including Aegon's subsidiaries, have also been named in class action litigation relating to increases in monthly deductions made to universal life products. Plaintiffs generally allege that the rates were increased to recoup past losses rather than to cover the future costs of providing insurance coverage. At this time it is impracticable for Aegon to quantify a range or maximum liability or the timing of the financial impact, if any, of these matters, as the potential financial impacts are dependent both on the outcomes of court proceedings and future developments in financial markets and mortality. If decided adversely to Aegon, these claims could have a material adverse effect on Aegon's business, results of operations, and financial position.

Unclaimed property administrators and state insurance regulators performed examinations of the life insurance industry in the United States, including certain of Aegon's subsidiaries, including multi-state examinations. One such action remains unresolved in the State of West Virginia. Aegon subsidiaries, like other major US insurers, entered into resolutions with state treasurers and insurance regulators regarding unclaimed property and claims settlement practices. As of 2016, EUR 1.5 million remained in provisions, which is management's best estimate of the still-outstanding exposure. The final amount may vary based on subsequent regulatory review.

Aegon's US operations also face employment-related lawsuits from time to time. Aegon is defending a suit filed by self-employed independent insurance agents associated with one of Aegon's financial marketing units who have claimed that they are, in fact, employees of the organization. Recently the court granted Aegon's motion to only allow individual claims to move forward and cease collective action proceedings in this case. Management believes that the potential direct financial exposure in this case is not material, and it has a strong case on the merits. However, if collective proceedings were to be reinstated on appeal and the case were to ultimately be decided adversely to Aegon, it could affect Aegon's business model and have a material adverse effect on Aegon's business and results of operations.

A former subsidiary of Transamerica Corporation was involved in a contractual dispute with a Nigerian travel broker over an alleged contract dispute that arose in 1976. That dispute was resolved in Delaware court for USD 235,000 plus interest in 2010. The plaintiff took the Delaware judgment relating to the 1976 dispute to a Nigerian court and alleged that it was entitled to approximately the same damages for 1977 through 1984 despite the absence of any contract relating to those years. The Nigerian trial court issued a judgment in favor of the plaintiff of the alleged actual damages as well as pre-judgment interest of approximately USD 120 million. On appeal this decision was reversed in 2016 but a new trial remains possible. Aegon has no material assets located in Nigeria.

In Poland, owners of unit-linked policies filed claims in civil court against Aegon over fees payable upon purchase or surrender of the product. For reasons of commercial necessity as well as at the instigation of the regulatory authorities, Aegon decided to modify the fee structure. Aegon faces a significant number of cases in which plaintiffs claim that these fees are not contractually supported. As of 2016, a provision of EUR 24 million exists, which represents management's best estimate of the exposure. The final amount may vary based on regulatory developments and the outcome of litigation.

In the Netherlands, unit linked products ('beleggingsverzekeringen') have been controversial and the target of litigation since at least 2005. Allegations include excessive cost, inadequate disclosure, and failure to perform as illustrated. Consumer groups have formed to address these issues and initiate mass claims against insurers. Regulators as well as the Dutch Parliament have been involved ever

since, with the principal goal of achieving an equitable resolution. Aegon expects the claims and litigation on unit linked products to continue for the foreseeable future. Developments in similar cases against other Dutch insurers currently before regulators and courts may also affect Aegon. In March 2014, consumer interest group Vereniging Woekerpolis.nl filed a claim against Aegon in court. The claim related to a range of unit-linked products that Aegon sold in the past, including Aegon products involved in earlier litigation. The claim challenges a variety of elements of these products, on multiple legal grounds, including allegations made previously. This claim is being vigorously defended. At this time, in the absence of a class action proceeding mechanism to establish collective damages and due to the highly individualized nature of the underlying policies, Aegon is unable to estimate the range or potential maximum liability. There can be no assurances that these matters, in the aggregate, will not ultimately result in a material adverse effect on Aegon's business, results of operations and financial position.

Securities leasing products ('aandelenlease producten') have also been the subject of litigation in the Netherlands. Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In 2016, the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that the financial institution was liable if a broker ('remisier') that advised on the sale of the institution's products was not properly licensed. In July 2016, consumer interest group Platform Aandelenlease filed a class action claim against Aegon Bank regarding securities leasing product Sprintplan. Allegations include, among other things, a lack of a proper license of the brokers involved. Aegon defends itself vigorously against these claims. Due to the highly individualized nature, Aegon at this stage is unable to estimate the range or potential maximum liability. There can be no assurances that this matter will not ultimately result in a material adverse effect on Aegon's business, results of operations and financial position.

### Future lease payments

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **Future lease payments** | Not later than 1 year | 1-5 years | Later than 5 years | Not later than 1 year | 1-5 years | Later than 5 years |
| Operating lease obligations | 88 | 189 | 231 | 79 | 186 | 254 |
| Operating lease rights | 53 | 124 | 32 | 62 | 156 | 56 |

The operating lease obligations relate mainly to office space leased from third parties.

The operating lease rights relate to non-cancellable commercial property leases.

## 49 Transfers of financial assets

Transfers of financial assets occur when Aegon transfers contractual rights to receive cash flows of financial assets or when Aegon retains the contractual rights to receive the cash flows of the transferred financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in that arrangement.

In the normal course of business Aegon is involved in the following transactions:

- Transferred financial assets that are not derecognized in their entirety:
  - Securities lending; whereby Aegon legally (but not economically) transfers assets and receives cash and non-cash collateral. The transferred assets are not derecognized. The obligation to repay the cash collateral is recognized as a liability. The non-cash collateral is not recognized on the balance sheet; and
  - Repurchase activities; whereby Aegon receives cash for the transferred assets. The financial assets are legally (but not economically) transferred, but are not derecognized. The obligation to repay the cash received is recognized as a liability.
- Transferred financial assets that are derecognized in their entirety and Aegon does not have a continuing involvement (normal sale);
- Transferred financial assets that are derecognized in their entirety, but where Aegon has a continuing involvement;
- Collateral accepted in the case of securities lending, reverse repurchase agreement and derivative transactions; and
- Collateral pledged in the case of (contingent) liabilities, repurchase agreements, securities borrowing and derivative transactions.

The following disclosures provide details for transferred financial assets that are not derecognized in their entirety, transferred financial asset that are derecognized in their entirety, but where Aegon has a continuing involvement and assets accepted and pledged as collateral.

### 49.1 Transferred financial assets that have not been derecognized in their entirety

The following table reflects the carrying amount of financial assets that have been transferred to another party in such a way that part or all of the transferred financial assets do not qualify for derecognition. Furthermore, it reflects the carrying amounts of the associated liabilities.

| | 2016 | | | |
|---|---|---|---|---|
| | **Available-for-sale financial assets** | | **Financial assets at fair value through profit or loss** | |
| | **Shares** | **Debt securities** | **Debt securities** | **Investments for account of policyholders** |
| Carrying amount of transferred assets | 226 | 5,298 | 20 | 194 |
| Carrying amount of associated liabilities | 242 | 5,400 | 21 | 204 |

| | 2015 | | | |
|---|---|---|---|---|
| | Available-for-sale financial assets | | Financial assets at fair value through profit or loss | |
| | Shares | Debt securities | Debt securities | Investments for account of policyholders |
| Carrying amount of transferred assets | 171 | 7,001 | 33 | 589 |
| Carrying amount of associated liabilities | 180 | 7,141 | 35 | 608 |

#### Securities lending and repurchase activities

The table above includes financial assets that have been transferred to another party under securities lending and repurchase activities.

Aegon retains substantially all risks and rewards of those transferred assets, this includes credit risk, settlement risk, country risk and market risk. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognized in the statement of financial position. Cash collateral is recorded on the statement of financial position as an asset and an offsetting liability is established for the same amount as Aegon is obligated to return this amount upon termination of the lending arrangement. Cash collateral is usually invested in pre-designated high quality investments. The sum of cash and non-cash collateral is typically greater than the market value of the related securities loaned. Refer to note 49.3 Assets accepted and note 49.4 Assets pledged for an analysis of collateral accepted and pledged in relation to securities lending and repurchase agreements.

### 49.2 Transferred financial assets that are derecognized in their entirety, but where Aegon has continuing involvement

Aegon has no transferred financial assets with continuing involvement that are derecognized in their entirely as per year-end 2016 and 2015.

### 49.3 Assets accepted

Aegon receives collateral related to securities lending, reverse repurchase activities and derivative transactions. Non-cash collateral is not recognized in the statement of financial position. To the extent that cash is paid for reverse repurchase agreements, a receivable is recognized for the corresponding amount.

The following tables present the fair value of the assets received in relation to securities lending and reverse repurchase activities:

| **Securities lending** | **2016** | 2015 |
|---|---|---|
| Carrying amount of transferred financial assets | 4,262 | 6,069 |
| Fair value of cash collateral received | 3,299 | 4,232 |
| Fair value of non-cash collateral received | 1,077 | 1,998 |
| **Net exposure** | **(114)** | **(161)** |
| Non-cash collateral that can be sold or repledged in the absence of default | 991 | 1,390 |
| Non-cash collateral that has been sold or transferred | - | - |

| Reverse repurchase agreements | 2016 | 2015 |
|---|---|---|
| Cash paid for reverse repurchase agreements | 4,075 | 4,416 |
| Fair value of non-cash collateral received | 4,103 | 4,445 |
| **Net exposure** | **(27)** | **(29)** |
| Non-cash collateral that can be sold or repledged in the absence of default | 3,288 | 3,462 |
| Non-cash collateral that has been sold or transferred | - | - |

The above items are conducted under terms that are usual and customary to standard securities lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

In addition, Aegon can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. Refer to the credit risk section in note 4 Financial risks for details on collateral received for derivative transactions.

### 49.4 Assets pledged

Aegon pledges assets that are on its statement of financial position in securities borrowing transactions, in repurchase transactions, in derivative transactions and against long-term borrowings. In addition, in order to trade derivatives on the various exchanges, Aegon posts margin as collateral.

These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

Non-cash financial assets that are borrowed or purchased under agreement to resell are not recognized in the statement of financial position.

To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized.

The following tables present the carrying amount of collateral pledged and the corresponding amounts.

| Assets pledged for general account and contingent liabilities | 2016 | 2015 |
|---|---|---|
| General account (contingent) liabilities | 6,440 | 3,729 |
| Collateral pledged | 8,115 | 5,348 |
| **Net exposure** | **(1,675)** | **(1,619)** |
| Non-cash collateral that can be sold or repledged by the counterparty | - | - |

| Assets pledged for repurchase agreements | 2016 | 2015 |
|---|---|---|
| Cash received on repurchase agreements | 1,485 | 1,728 |
| Collateral pledged (transferred financial assets) | 1,477 | 1,724 |
| **Net exposure** | **8** | **4** |

As part of Aegon's mortgage loan funding program in the Netherlands, EUR 6.8 billion (2015: EUR 8.3 billion) has been pledged as security for notes issued (note 39 Borrowings). In addition, in order to trade derivatives on the various exchanges, Aegon posts margin as collateral. The amount of collateral pledged for derivative transactions was EUR 2,688 million (2015: EUR 1,166 million).

## 50 Offsetting, enforceable master netting arrangements and similar agreements

The following table includes financial instruments that are set off in the statement of financial position. In addition, it includes financial instruments that are subject to a legally enforceable master netting arrangement or similar agreements, not set off in the financial statements. The table provides details relating to the effect, or potential effect, of netting arrangements, including rights to set-off, associated with the entity's recognized financial assets and recognized financial liabilities.

| Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not set off in the statements of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash collateral received (excluding surplus collateral) | |
| **2016** | | | | | | |
| Derivatives | 8,114 | - | 8,114 | 6,427 | 1,486 | 201 |
| **At December 31** | **8,114** | **-** | **8,114** | **6,427** | **1,486** | **201** |
| **2015** | | | | | | |
| Derivatives | 11,242 | - | 11,242 | 9,010 | 1,905 | 326 |
| **At December 31** | **11,242** | **-** | **11,242** | **9,010** | **1,905** | **326** |

| Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Related amounts not set off in the statements of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash collateral pledged (excluding surplus collateral) | |
| **2016** | | | | | | |
| Derivatives | 6,689 | - | 6,689 | 6,570 | 20 | 99 |
| **At December 31** | **6,689** | **-** | **6,689** | **6,570** | **20** | **99** |
| **2015** | | | | | | |
| Derivatives | 8,652 | - | 8,652 | 8,388 | 215 | 48 |
| **At December 31** | **8,652** | **-** | **8,652** | **8,388** | **215** | **48** |

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 to realize the asset and settle the liability simultaneously. As shown in the second column there are no financial assets and liabilities offset in 2016 and 2015.

The line Derivatives includes derivatives for general account and for account of policyholder.

Note that the 2015 numbers are updated compared to the Annual report 2015 to exclude derivatives that cannot be set off. The 2015 net exposure for derivative assets and liabilities is lowered by EUR 188 million and EUR 192 million respectively. These updates had no effect on net income, shareholders' equity or earnings per share.

Aegon mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the Aegon's legal entities to facilitate Aegon's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

## 51 Business combinations

### Acquisitions

#### 2016

On May 3, 2016, Aegon announced it has agreed to buy BlackRock's UK defined contribution (DC) platform and administration business. Under the purchase agreement, Aegon will acquire approximately GBP 12 billion (EUR 15 billion) of assets and 350,000 customers from BlackRock, which serves institutional and retail clients. The transaction is subject to a Part VII transfer of the underlying assets and liabilities to Aegon, which is subject to regulatory and court approval.

On August 11, 2016 Aegon announced the acquisition of Cofunds from Legal & General for GBP 140 million (EUR 164 million). The purchase of the Cofunds Ltd business is done through a sale and purchase agreement to acquire all the shares and platform assets. On January 1, 2017 Aegon completed the acquisition of Cofunds, following regulatory approval.

#### 2015

On June 4, 2015 Aegon completed a strategic asset management partnership with La Banque Postale. Under the terms of the agreement, Aegon has acquired a 25% stake in La Banque Postale Asset Management (LBPAM) for a consideration of EUR 117 million.

On September 25, 2015, Aegon announced that it has acquired Mercer's US defined contribution record-keeping business. On December 31, 2015, Aegon completed the acquisition after obtaining regulatory approval. The total purchase price amounted to EUR 70 million (USD 78 million), consisting of EUR 64 million (USD 71 million) cash and EUR 6 million (USD 7 million) contingent consideration. Cash position of Mercer amounts to nil on acquisition date.

On December 7, 2015, Aegon announced that it has increased its investment in Aegon Religare Life Insurance Company ARLI from 26 percent to 49 percent. The company has been renamed as Aegon Life Insurance Company Ltd.

#### 2014

There were no material acquisitions during 2014.

### Divestments/Disposals

#### 2016

On January 18, 2016 Aegon Nederland N.V. sold its commercial non-life insurance business, which includes the proxy and coinsurance run-off portfolios. This business has an annual premium volume of approximately EUR 90 million. The total insurance liabilities from this business are EUR 334 million while the consideration paid in cash was EUR 302 million. The transaction was subsequently approved by the Dutch Central Bank (De Nederlandsche Bank) and the Dutch Authority for Consumers and Markets (Autoriteit Consument & Markt). Aegon completed the sale on July 1, 2016, which resulted in a gain of EUR 11 million.

On May 13, 2016, Aegon completed the sale of certain assets of Transamerica Financial Advisors, a full service independent broker-dealer and registered investment adviser, following regulatory approval. The consideration received for the sale consisted of USD 49 million (EUR 44 million) cash and USD 14 million (EUR 13 million) of contingent consideration which is subject to a 12 month earn-out period. The transaction resulted in a pre tax gain of USD 58 million (EUR 52 million) recorded in the second quarter of 2016.

In the second quarter of 2016 Aegon sold its UK annuity portfolio in two parts. On April 11, 2016 Aegon announced the sale of around GBP 6 billion of the portfolio to Rothesay Life. On May 23, 2016 Aegon announced the sale of around GBP 3 billion of the portfolio to Legal & General. Aegon incurred a book loss on the transaction before tax of GBP 530 million (EUR 682 million), reported in the line other charges in the consolidated income statement. The transaction resulted in a tax benefit of GBP 41 million (EUR 53 million). Under the terms of the agreements, Aegon reinsured GBP 6.8 billion of liabilities to Rothesay Life and Legal & General, followed by a Part VII transfer[1], which is subject to court approval. The loss on the reinsurance transaction is GBP 1.9 billion (EUR 2.4 billion) being the difference of the reinsurance premium paid and the reinsurance asset received related to the insurance liabilities. Upon disposal an amount of GBP 1.4 billion (EUR 1.8 billion) related to a positive revaluation reserve has been reclassified from Other Comprehensive Income into the income statement. Taking into account the results of the sale of the related bonds leads to abovementioned result on the transaction of GBP 530 million. The related net cash outflow amounted to GBP 647 million (EUR 831 million). Expenses related to the transaction, including cost of sale, amount to GBP 13 million (EUR 16 million).

On December 16, 2016, Aegon completed the sale of 100% of its shares of Aegon Life Ukraine to TAS Group, and exited the Ukrainian market. This transaction has no material impact on the consolidated numbers of Aegon.

1 An insurance business transfer scheme under Part VII of the United Kingdom Financial Services and Markets Act 2000 allows an insurer to transfer policies as at a fixed time and date to another insurer, along with related contracts with other parties (including reinsurance).

### 2015

On March 3, 2015, Aegon completed the sale of its 35% share in La Mondiale Participations following the granting of approval by the French Competition Authority (Autorité de la Concurrence). The agreement to sell Aegon's stake in La Mondiale Participations to La Mondiale for EUR 350 million was announced on November 24, 2014. Proceeds from the sale were added to Aegon's excess capital buffer, and increased the group's Insurance Group Directive (IGD) solvency ratio by over 4 percentage points at the time of the sale.

On July 31, 2015, Aegon completed the sale of its Canadian life insurance business following regulatory approval. The agreement to sell Aegon's Canadian life insurance business for an amount of CAD 600 million (EUR 428 million) was announced on October 16, 2014. The transaction resulted in a book loss of CAD 1,054 million (EUR 751 million) recorded and presented as part of 'other charges', please refer to Note 17 Other charges. Aegon used the proceeds of this transaction for the redemption of the USD 500 million 4.625% senior bond which was due in December 2015.

The results of the Canadian operations reflect amounts previously recorded in Other Comprehensive Income that were reclassified into the income statement including CAD 178 million (EUR 127 million) release of the foreign currency translation reserve, CAD (72) million (EUR (51) million) release of the net foreign investment hedging reserve and CAD 668 million (EUR 476 million) for the release of the available for sale reserve. The net cash proceeds were CAD 543 million (EUR 387 million) consisting of CAD 600 million (EUR 428 million) cash received and the cash and cash equivalents included in the sale of CAD 57 million (EUR 41 million). Expenses related to the transaction, including cost of sale, amounted to CAD 11 million (EUR 8 million).

On September 1, 2015, Aegon completed the sale of Clark Consulting following regulatory approval. The agreement to sell Clark Consulting for USD 177.5 million (EUR 160 million) was announced on July 10, 2015 and resulted in a gain of USD 8 million (EUR 7 million). The cash and cash equivalents included at the time of the sales amounted to USD 13 million (EUR 12 million).

On September 7, 2015, Aegon completed the sale of its 25.1% share in platform provider and discretionary fund manager Seven Investment Management (7IM) for GBP 19 million (EUR 26 million). This transaction has led to a net gain of GBP 7 million (EUR 10 million). 7IM was recorded as an associate in the books of Aegon.

### 2014

No divestments were completed in 2014.

## 52 Group companies

### Subsidiaries

The principle subsidiaries of the parent company Aegon N.V. are listed by geographical segment. All are wholly owned, directly or indirectly, unless stated otherwise, and are involved in insurance or reinsurance business, asset management or services related to these activities. The voting power in these subsidiaries held by Aegon is equal to the shareholdings.

### Americas

- Transamerica Advisors Life Insurance Company, Little Rock, Arkansas (United States);
- Transamerica Casualty Insurance Company, Columbus, Ohio (United States);
- Transamerica Corporation, Wilmington, Delaware (United States);
- Transamerica Financial Life Insurance Company, Inc., Albany, New York (United States);
- Transamerica Life Insurance Company, Cedar Rapids, Iowa (United States);
- Transamerica Premier Life Insurance Company, Cedar Rapids, Iowa (United States).

### Europe

#### The Netherlands

- Aegon Bank N.V., The Hague;
- Aegon Hypotheken B.V., The Hague;
- Aegon Levensverzekering N.V., The Hague;
- Aegon Schadeverzekering N.V., The Hague;
- Aegon Spaarkas N.V., The Hague;
- Optas Pensioenen N.V., Rotterdam;
- TKP Pensioen B.V., Groningen;
- Unirobe Meeùs Groep B.V., The Hague;
- Aegon PPI B.V., The Hague;
- Cappital Premiepensioeninstelling B.V., Groningen.

United Kingdom
- Aegon Investment Solutions Ltd., Edinburgh;
- Scottish Equitable plc, Edinburgh.

Central & Eastern Europe
- Aegon Magyarország Általános Biztosító Zártkörűen Működő Részvénytársaság, Budapest (Hungary);
- Aegon Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna, Warsaw (Poland);
- Aegon Powszechne Towarzystwo Emerytaine Spólka Akcyjna (Poland);
- Aegon Emeklilik ve Hayat A.S. (Turkey);
- Aegon Pensii Societate de Administrare a Fondurilor de Pensii Private A.S. (Romania);
- Aegon Pojišťovna, a.s. (Czech Republic);
- Aegon Životná poist'ovňa, a.s. (Slovakia);
- Aegon, d.s.s., a.s. (Slovakia).

Spain & Portugal
- Aegon España S.A.U., Madrid;
- Aegon Administracion y Servicios A.I.E., Madrid;
- Aegon Activos A.V., S.A., Madrid.

Asia
- Transamerica Life (Bermuda) Ltd., Hamilton, Bermuda.

Asset Management
- Aegon Asset Management Holding B.V., The Hague;
- Kames Capital Holdings Ltd, Edinburgh;
- TKP Investments B.V., Groningen

The legally required list of participations as set forth in articles 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register in The Hague. Aegon N.V. has issued a statement of liability as meant in article 403 of Book 2 of the Dutch Civil Code for its subsidiary company Aegon Derivatives N.V.

**Joint ventures**

The principal joint ventures are listed by geographical segment.

Americas
- Akaan-Aegon, S.A.P.I. de C.V., Mexico City (Mexico), (99.99%).

Europe

The Netherlands
- AMVEST Vastgoed B.V., Utrecht (50%), property management and development.

Spain & Portugal
- Aegon Santander Generales Seguros y Reaseguros, S.A., Madrid (Spain), (51%);
- Aegon Santander Portugal Vida – Companhia de Seguros de Vida S.A., Lisbon (Portugal), (51%);
- Aegon Santander Portugal Não Vida – Companhia de Seguros S.A., Lisbon (Portugal), (51%);
- Aegon Santander Vida Seguros y Reaseguros, S.A., Madrid (Spain), (51%);
- Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A., Oviedo (Spain), (50%).

Asia
- Aegon Industrial Fund Management Co., Ltd, Shanghai (China), (49%);
- Aegon Sony Life Insurance Co, Tokyo (Japan), (50%);
- Aegon-THTF Life Insurance Company Ltd, Shanghai (China), (50%);
- SA Reinsurance Ltd, Hamilton (Bermuda), (50%).

Refer to note 26 Investments in joint ventures for further details on these investments.

### Investments in associates

The principal investments in associates are listed by geographical segment.

#### Americas

- Mongeral Aegon, Seguros e Previdencia S.A., Rio de Janeiro (Brazil), (50%).

#### Europe

##### The Netherlands

- N.V. Levensverzekering-Maatschappij 'De Hoop', The Hague, (33.3%).

##### United Kingdom

- Tenet Group Limited, Leeds, (22%).

#### Asia

- Aegon Life Insurance Company, Mumbai (India), (49%).

#### Asset Management

- La Banque Postale Asset Management, Paris (France), (25%).

Refer to note 27 Investments in associates for further details on these investments.

## 53 Related party transactions

In the normal course of business, Aegon enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of Aegon include, amongst others, its associates, joint ventures, key management personnel and the defined benefit and contribution plans. Transactions between related parties have taken place on an arm's length basis. Transactions between Aegon and its subsidiaries that are deemed related parties have been eliminated in the consolidation and are not disclosed in the notes.

Related party transactions include, among others, transactions between Aegon N.V. and Vereniging Aegon.

On June 6, 2016 Aegon N.V. repurchased 17,324,960 Common Shares B from Vereniging Aegon for the amount of EUR 1,968,332, being 1/40th of the Value Weight Average Price of the common shares of the 5 trading days preceding this transaction. The repurchase of common shares B was executed to align the aggregate shareholding of Vereniging Aegon in Aegon N.V. with its special cause voting rights of 32.6%.

On May 19, 2016 Aegon N.V. repurchased 13,450,835 Common Shares from Vereniging Aegon for the amount of EUR 58 million being the Value Weight Average Price of the common shares of the 5 trading days preceding this transaction, as part of the EUR 400 million Share Buy Back program, initiated by Aegon N.V. in January 2016 to neutralize the dilutive effect of the cancellation of Aegon N.V.'s preferred shares in 2013. Also the amount of EUR 58 million is 14.5% of EUR 400 million, which percentage is equal to the percentage of shares held by Vereniging Aegon in the total number of outstanding and voting shares Aegon N.V. at the time of this transaction.

On November 13, 2015, Vereniging Aegon exercised its options rights to purchase in aggregate 760 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by a correction to Aegon's issuance of shares on May 21, 2015, in connection with the Long Term Incentive Plans for senior management.

On May 21, 2015, Vereniging Aegon exercised its options rights to purchase in aggregate 3,686,000 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by issuance of shares on May 21, 2015, in connection with the Long Term Incentive Plans for senior management.

On January 1, 2015, Vereniging Aegon exercised its options rights to purchase in aggregate 9,680 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by issuance of shares on January 1, 2015, in connection with the Long Term Incentive Plans for senior management.

On May 22, 2014, and with effect of May 21, 2014, Vereniging Aegon exercised its options rights to purchase in aggregate 2,320,280 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by Aegon's issuance of shares on May 21, 2014, in connection with the Long Term Incentive Plans for senior management.

### Remuneration of members of the Management Board

The Management Board, which assists the Executive Board in pursuing Aegon's strategic goals, is formed by members of the Executive Board, the CEO's of Aegon USA, Aegon the Netherlands, Aegon UK and Aegon Central & Eastern Europe, and Aegon's Chief Risk Officer. In August 2016 the Management Board was expanded with four positions. Positions added were CEO Asset Management, Chief Technology Officer, Global Head HR and General Counsel which increased the total remuneration for 2016. The total remuneration for the members of the Management Board over 2016 was EUR 18.6 million (2015: EUR 15.2 million; 2014: EUR 14.9 million), consisting of EUR 7.0 million (2015: EUR 6.3 million; 2014: EUR 5.1 million) fixed compensation, EUR 6.4 million variable compensation awards (2015: EUR 4.9 million; 2014: EUR 5.2 million), EUR 1.9 million (2015: EUR 1.6 million; 2014: EUR 2.0 million) other benefits and EUR 3.4 million (2015: EUR 2.5 million; 2014: EUR 2.6 million) pension premiums. Amounts are reflective of time spent on the Management Board.

Expenses as recognized under IFRS-EU in the income statement for variable compensation and pensions differ from the variable compensation awards and pension premiums paid due to the accounting treatment under respectively IFRS 2 and IAS 19. IFRS-EU expenses related to variable compensation amounted to EUR 6.0 million (2015: EUR 5.0 million; 2014: EUR 5.6 million) and EUR 3.2 million (2015: EUR 3.4 million; 2014: EUR 2.0 million) for pensions. Total IFRS-EU expenses for the members of the Management Board over 2016 were EUR 18.7 million (2015: EUR 16.8 million; 2014: EUR 15.1 million). The amount is reflective of time spent on the Management Board.

Additional information on the remuneration and share-based compensation of members of the Executive Board and the remuneration of the Supervisory Board is disclosed in the sections below (all amounts in EUR '000, except where indicated otherwise).

### Remuneration of members of the Executive Board

The information below reflects the compensation and various related expenses for members of the Executive Board. Mr. Button stepped down as CFO and member of Aegon's Executive Board with effect from December 1, 2016. Amounts and numbers are disclosed for the period Mr. Button has been part of the Executive Board and are reflective of his time with Aegon till December 1, 2016. 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 schedule and conditions (including customary claw back provisions).

Under the current remuneration structure, rewards are paid out over a number of years, or in the case of shares, vest over a number of years. This remuneration structure has made it more relevant to present rewards earned during a certain performance year instead of what was received in a certain year.

#### Fixed compensation

| In EUR thousand | 2016 | 2015 | 2014 |
|---|---|---|---|
| Alex Wynaendts | 1,269 | 1,154 | 1,154 |
| Darryl Button [1)] | 933 | 991 | 753 |
| **Total fixed compensation** | **2,202** | **2,145** | **1,907** |

[1] Mr. Button stepped down as CFO and member of Aegon's Executive Board on December 1, 2016. Fixed compensation is disclosed for the period in the year 2016 that Mr. Button has been part of the Executive Board and are reflective of his time with Aegon until December 1, 2016. In his position as CFO and member of Aegon's Executive Board Mr. Button earned in 2016 an annual base salary of USD 1.1 million (2015: USD 1.1 million; 2014: USD 1.0 million). Amounts in the table are based on USD, converted to EUR, based on annual average exchange rate and reflective of time in service.

## Conditional variable compensation awards

| In EUR thousand | 2016 | 2015 | 2014 |
|---|---|---|---|
| Alex Wynaendts | 1,044 | 923 | 913 |
| Darryl Button [1)] | 747 | 784 | 600 |
| **Total conditional variable compensation awards** | **1,791** | **1,707** | **1,513** |

[1] Mr. Button stepped down as CFO and member of Aegon's Executive Board on December 1, 2016. Conditional variable compensation is disclosed for the period that Mr. Button has been part of the Executive Board and are reflective of his time with Aegon until December 1, 2016. Amounts are based on USD, converted to EUR, based on annual average exchange rates.

The amounts in the table represent the conditional variable compensation awards earned during the related performance year. Expenses recognized under IFRS-EU accounting treatment in the income statement for conditionally awarded cash and shares differ from the awards. For the performance year 2016 and previous performance years, expenses under IFRS-EU for Mr. Wynaendts amounted to EUR 956 (2015: EUR 900; 2014: EUR 958).

For Mr. Button, the expenses under IFRS-EU with regard to conditionally awarded cash and shares recognized in the income statement during the performance year 2016 for his role as CFO and member of Aegon's Executive Board amounted to EUR 709 (2015: EUR 683; 2014: EUR 466). Expenses related to conditional variable compensation awards are recognized in full at retirement date. Therefore, expenses under IFRS-EU in 2016 for Mr. Button relate to the conditional variable compensation awards for the performance year 2016 as well as for previous performance years. Expenses recognized in the income statement for Mr. Button amount to EUR 1,237 (2015: EUR 995, 2014: EUR 719). The vesting conditions and applicable holding periods for the awards of Mr. Button remain nevertheless unchanged.

### 2016

Over the performance year 2016, Mr. Wynaendts was awarded EUR 1,044 in total conditional variable compensation. Mr. Button was awarded EUR 747.

Variable compensation is split 50/50 in a cash payment and an allocation of shares. Of the variable compensation related to performance year 2016, 40% is payable in 2017. Accordingly, Mr. Wynaendts and Mr. Button will receive a cash payment of EUR 209 and EUR 149 respectively. The number of shares to be made available in 2017 relating to performance year 2016 is 40,722 and 29,614 for Mr. Wynaendts and Mr. Button respectively. The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2016 (60%), for Mr. Wynaendts EUR 313 and 61,083 shares and for Mr. Button EUR 224 and 44,424 shares, is to be paid out in equal portions in 2018, 2019 and 2020, subject to ex-post assessments, which may result in downward adjustments and may be subject to additional conditions being met. Any payout will be split 50/50 in a cash payment and an allocation of shares vesting. The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

### 2015

Over the performance year 2015, Mr. Wynaendts was awarded EUR 923 in total conditional variable compensation. Mr. Button was awarded EUR 784.

Variable compensation is split 50/50 in a cash payment and an allocation of shares. Of the variable compensation related to performance year 2015, 40% is payable in 2016. Accordingly, Mr. Wynaendts and Mr. Button will receive a cash payment of EUR 185 and EUR 157 respectively. The number of shares to be made available in 2016 relating to performance year 2015 is 30,219 and 23,621 for Mr. Wynaendts and Mr. Button respectively. The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2015 (60%), for Mr. Wynaendts EUR 277 and 45,330 shares and for Mr. Button EUR 235 and 35,433 shares, is to be paid out in equal portions in 2017, 2018 and 2019, subject to ex-post assessments, which may result in downward adjustments and may be subject to additional conditions being met. Any payout will be split 50/50 in a cash payment and an allocation of shares vesting.The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

2014

Over the performance year 2014, Mr. Wynaendts was awarded EUR 913 in total conditional variable compensation. Mr. Button was awarded EUR 600.

Variable compensation is split 50/50 in a cash payment and an allocation of shares. Of the variable compensation related to performance year 2014, 40% was payable in 2015. Accordingly, Mr. Wynaendts and Mr. Button received a cash payment of EUR 183 and EUR 120 respectively. The number of shares made available in 2015 relating to performance year 2014 was 27,105 and 17,302 for Mr. Wynaendts and Mr. Button respectively. The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2014 (60%), for Mr. Wynaendts EUR 274 and 40,656 shares and for Mr. Button EUR 180 and 25,956 shares, is to be paid out in equal portions in 2016, 2017 and 2018, subject to ex-post assessments, which may result in downward adjustments and may be subject to additional conditions being met. Any payout will be split 50/50 in a cash payment and an allocation of shares vesting. The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

Mr. Nooitgedagt was awarded EUR 434 variable compensation for the period he served as a member of the Executive Board in 2013. Variable compensation is split 50/50 in a cash payment and an allocation of shares. Of the variable compensation related to performance year 2013, 40% was payable in 2014. Accordingly, Mr. Nooitgedagt received a cash payment of EUR 87. The number of shares to be made available in 2014 related to performance year 2013 is 17,650. Of the remaining 60%, EUR 130 and 26,478 shares is to be paid out in future years and subject to ex-post assessments, which may result in downward adjustments. In each of the years 2015, 2016 and 2017, equal portions of the deferred variable compensation over 2013 may be made available. Any payout will be split 50/50 in cash payment and an allocation of shares vesting. The vested shares, less the number of shares 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, are subject to a three year retention (holding) period, before they are at the disposal of the Executive Board members.

The table below illustrates all the conditionally awarded cash and shares of the members of the Executive Board, and the years in which each component will be paid out and/or vest, subject to the conditions as mentioned:

| | Conditional granted performance related remuneration | Timing of vesting, subject to targets and conditions | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Shares by reference period** | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Alex Wynaendts | | | | | | | | |
| 2007 | 9,253 [7] | - | - | 9,253 | - | - | - | - |
| 2011[1] | 34,608 | 17,304 | 17,304 | - | - | - | - | - |
| 2012[2] | 97,665 | 32,555 | 32,555 | 32,555 | - | - | - | - |
| 2013[3] | 104,904 | 41,961 | 20,981 | 20,981 | 20,981 | - | - | - |
| 2014[4] | 67,761 | - | 27,105 | 13,552 | 13,552 | 13,552 | - | - |
| 2015[5] | 75,549 | - | - | 30,219 | 15,110 | 15,110 | 15,110 | - |
| 2016[6] | 101,805 | - | - | - | 40,722 | 20,361 | 20,361 | 20,361 |
| **Total number of shares** | **491,545** | **91,820** | **97,945** | **106,560** | **90,365** | **49,023** | **35,471** | **20,361** |
| Darryl Button | | | | | | | | |
| 2013[3] | 47,862 | 19,146 | 9,572 | 9,572 | 9,572 | - | - | - |
| 2014[4] | 43,258 | - | 17,302 | 8,652 | 8,652 | 8,652 | - | - |
| 2015[5] | 59,054 | - | - | 23,621 | 11,811 | 11,811 | 11,811 | - |
| 2016[6] | 74,038 | - | - | - | 29,614 | 14,808 | 14,808 | 14,808 |
| **Total number of shares** | **224,212** | **19,146** | **26,874** | **41,845** | **59,649** | **35,271** | **26,619** | **14,808** |
| Jan J. Nooitgedagt | | | | | | | | |
| 2011[1] | 22,500 | 11,250 | 11,250 | - | - | - | - | - |
| 2012[2] | 67,110 | 22,370 | 22,370 | 22,370 | - | - | - | - |
| 2013[3] | 44,128 | 17,650 | 8,826 | 8,826 | 8,826 | - | - | - |
| **Total number of shares** | **133,738** | **51,270** | **42,446** | **31,196** | **8,826** | **-** | **-** | **-** |
| **Cash (in EUR)** | | | | | | | | |
| Alex Wynaendts | | | | | | | | |
| 2011 | 163,590 | 81,795 | 81,795 | - | - | - | - | - |
| 2012 | 305,304 | 101,768 | 101,768 | 101,768 | - | - | - | - |
| 2013 | 515,816 | 206,327 | 103,163 | 103,163 | 103,163 | - | - | - |
| 2014 | 456,643 | - | 182,656 | 91,329 | 91,329 | 91,329 | - | - |
| 2015 | 461,305 | - | - | 184,522 | 92,261 | 92,261 | 92,261 | - |
| 2016 | 522,060 | - | - | - | 208,824 | 104,412 | 104,412 | 104,412 |
| **Total cash** | **2,424,718** | **389,890** | **469,382** | **480,782** | **495,577** | **288,002** | **196,673** | **104,412** |
| Darryl Button | | | | | | | | |
| 2013 | 233,834 | 93,533 | 46,767 | 46,767 | 46,767 | - | - | - |
| 2014 | 300,120 | - | 120,048 | 60,024 | 60,024 | 60,024 | - | - |
| 2015 | 392,155 | - | - | 156,862 | 78,431 | 78,431 | 78,431 | - |
| 2016 | 373,368 | - | - | - | 149,347 | 74,674 | 74,674 | 74,674 |
| **Total cash** | **1,299,478** | **93,533** | **166,815** | **263,653** | **334,569** | **213,129** | **153,105** | **74,674** |
| Jan J. Nooitgedagt | | | | | | | | |
| 2011 | 106,360 | 53,180 | 53,180 | - | - | - | - | - |
| 2012 | 209,787 | 69,929 | 69,929 | 69,929 | - | - | - | - |
| 2013 | 216,980 | 86,792 | 43,396 | 43,396 | 43,396 | - | - | - |
| **Total cash** | **533,127** | **209,901** | **166,505** | **113,325** | **43,396** | **-** | **-** | **-** |

[1] The number of shares is based on a volume weighted average price of EUR 4.727. After vesting a 3 year holding period applies to shares vested.
[2] The number of shares is based on a volume weighted average price of EUR 3.126. After vesting a 3 year holding period applies to shares vested.
[3] The number of shares is based on a volume weighted average price of EUR 4.917. After vesting a 3 year holding period applies to shares vested.
[4] The number of shares is based on a volume weighted average price of EUR 6.739. After vesting a 3 year holding period applies to shares vested.
[5] The number of shares is based on a volume weighted average price of EUR 6.106. After vesting a 3 year holding period applies to shares vested.
[6] The number of shares is based on a volume weighted average price of EUR 5.128 After vesting a 3 year holding period applies to shares vested
[7] During the vesting period, dividend payments on these shares are deposited in blocked savings accounts on behalf of the executive members. For active members of the Executive Board 50% of the shares vested in 2012 and 50% vested in 2016.

### Other benefits

| In EUR thousand | 2016 | 2015 | 2014 |
|---|---|---|---|
| Alex Wynaendts | 178 | 151 | 151 |
| Darryl Button [1)] | 739 | 528 | 583 |
| **Total other benefits** | **917** | **679** | **734** |

[1] Mr. Button stepped down as CFO and member of Aegon's Executive Board on December 1, 2016. Other benefits are disclosed for the period that Mr. Button has been part of the Executive Board and are reflective of his time with Aegon December 1, 2016.

Other benefits include non-monetary benefits (e.g. company car), social security contributions by the employer, and tax expenses borne by the Group. For Mr. Button, these benefits also include expenses related to his expatriation and commuter assignment from the United States to the Netherlands, borne by the Group.

### Pension contributions

| In EUR thousand | 2016 | 2015 | 2014 |
|---|---|---|---|
| Alex Wynaendts | 2,047 | 1,219 | 1,728 |
| Darryl Button [1)] | 375 | 215 | 177 |
| **Total pension contributions** | **2,422** | **1,434** | **1,905** |

[1] Mr. Button stepped down as CFO and member of Aegon's Executive Board on December 1, 2016. Pension contributions are disclosed for the period that Mr. Button has been part of the Executive Board and are reflective of his time with Aegon until December 1, 2016

The amounts as presented in the table are the pension contributions in the related book year. The 2014 and 2016 contributions for Mr. Wynaendts to the Aegon pension funds reflect the increase to his fixed salary as well as the current low interest rates. Under IFRS-EU, the service cost as recognized in the income statement related to the defined benefit obligation of Mr. Wynaendts amounted to EUR 1,666 (2015: EUR 1,962; 2014: EUR 951). Service cost for Mr. Button amounted to EUR 375 (2015: EUR 215; 2014: EUR 177).

### Total

The total amount of remuneration, consisting of the fixed compensation, conditional variable compensation awards, other benefits and pension contributions, for Mr. Wynaendts related to 2016 was EUR 4,538 (2015: EUR 3,446; 2014: EUR 3,947) and for Mr. Button EUR 2,793 (2015: EUR 2,518; 2014: EUR 2,113). The remuneration of Mr. Button is charged from his home country to the Netherlands. These charges are subject to Dutch VAT, which is an expense for Aegon. The amount of VAT liable over 2016 is EUR 587 (2015: EUR 529, 2014: EUR 444). As a result of the termination of the Board membership of Mr. Button the Dutch government imposes a tax-levy. This additional employer wage tax is currently estimated at EUR 1,394[1]. The estimate is inclusive of previously allocated but not yet paid out variable compensation which will vest according to the regular and agreed schedule and conditions. A number of benefits previously granted will be forfeited by Mr. Button in 2017. The forfeited amount is currently estimated to be 1,175. The total remuneration for the members of the Executive Board over 2016 was EUR 7.3 million (2015: EUR 6.0 million; 2014: EUR 6.1 million). Total expenses recognized under IFRS-EU accounting treatment in the income statement for Mr. Wynaendts related to 2016 was EUR 4,086 (2015: EUR 4,167; 2014: EUR 3,214) and for Mr. Button EUR 3,928 (2015: EUR 2,946; 2014: EUR 2,750). Total IFRS-EU expenses for the members of the Executive Board over 2016 was EUR 8.0 million (2015: EUR 7.1 million; 2014: 6.0 million).

### Interests in Aegon N.V. held by active members of the Executive Board

Shares held in Aegon at December 31, 2016 by Mr. Wynaendts amount to 401,948 (2015: 346,301). Mr. Button stepped down as CFO and member of Aegon's Executive Board on December 1, 2016. Mr. Button held 323,901 shares on December 1, 2016 (shares held on December 31, 2015: 162,469). The shares held in Aegon mentioned above do not exceed 1% of total outstanding share capital at the reporting date.

At the reporting date, Mr. Wynaendts had no loans with Aegon (mortgage loan 2015: EUR 249,158). In 2016 Mr. Wynaendts made a repayment on the mortgage loan totalling EUR 249,158. No other outstanding balances such as guarantees or advanced payments exist.

1 The additional employer wage tax is not included in the overall IFRS-EU expenses.

## Remuneration of active and retired members of the Supervisory Board

| In EUR | 2016 | 2015 | 2014 |
|---|---|---|---|
| Robert J. Routs | 140,000 | 143,000 | 134,000 |
| Robert W. Dineen (as of May 21, 2014) | 115,000 | 121,000 | 70,125 |
| Shemaya Levy | 95,250 | 101,000 | 94,125 |
| Ben J. Noteboom (as of May 20, 2015) | 109,000 | 69,250 | - |
| Ben van der Veer | 109,000 | 115,000 | 104,125 |
| Dirk P.M. Verbeek | 111,000 | 112,125 | 92,000 |
| Corien M. Wortmann-Kool (as of May 21, 2014) | 90,000 | 96,000 | 55,250 |
| Dona D. Young | 113,000 | 121,000 | 118,000 |
| **Total for active members** | **882,250** | **878,375** | **667,625** |
| Antony Burgmans (up to April 1, 2014) | - | - | 15,000 |
| Kornelis J. Storm (up to May 21, 2014) | - | - | 33,750 |
| Leo M. van Wijk (up to May 20, 2015) | - | 38,625 | 86,000 |
| Irving W. Bailey, II (up to May 20, 2016) | 53,625 | 135,000 | 122,750 |
| **Total remuneration** | **935,875** | **1,052,000** | **925,125** |
| VAT liable on Supervisory Board remuneration | 196,534 | 220,920 | 194,276 |
| **Total** | **1,132,409** | **1,272,920** | **1,119,401** |

Aegon's Supervisory Board members 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 (2016: 8 meetings; 2015: 7 meetings; 2014: 7 meetings);
- An attendance fee of EUR 3,000 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.

Not included in the table above is a premium for state health insurance paid on behalf of Dutch Supervisory Board members.
There are no outstanding balances such as loans, guarantees or advanced payments

## Common shares held by Supervisory Board members

| Shares held in Aegon at December 31 | 2016 | 2015 |
|---|---|---|
| Irving W. Bailey, II (up to May 20, 2016) | - | 31,389 |
| Robert W. Dineen | 10,000 | - |
| Ben J. Noteboom | 23,500 | 23,500 |
| Ben van der Veer | 1,450 | 1,450 |
| Dirk P.M. Verbeek | 1,011 | 1,011 |
| Dona D. Young | 13,260 | 13,260 |
| **Total** | **49,221** | **70,610** |

Shares held by Supervisory Board members are only disclosed for the period for which they have been part of the Supervisory Board.

## 54 Events after the reporting period

On January 1, 2017, Aegon completed the acquisition of Cofunds, following regulatory approval.

### The Hague, the Netherlands, March 22, 2017

**Supervisory Board**

Robert J. Routs
Robert W. Dineen
Shemaya Levy
Ben J. Noteboom
Ben van der Veer
Dirk P.M. Verbeek
Corien M. Wortmann-Kool
Dona D. Young

**Executive Board**

Alex Wynaendts

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# Income statement of Aegon N.V.

For the year ended December 31

| Amounts in EUR million | Note | 2016 | 2015 |
|---|---|---|---|
| **Income** | | | |
| Investment Income | 3 | 121 | 161 |
| **Total revenues** | | **121** | **161** |
| Results from financial transactions | 4 | (68) | (33) |
| **Total income** | | **53** | **128** |
| **Charges** | | | |
| Commissions and expenses | 5 | 68 | 57 |
| Interest charges and related fees | 6 | 106 | 134 |
| **Total charges** | | **174** | **191** |
| **Income before tax** | | **(121)** | **(63)** |
| Income Tax | 7 | 25 | 24 |
| **Income after tax** | | **(96)** | **(38)** |
| Net income/(loss) group companies | | 682 | (485) |
| **Net income / (loss)** | | **586** | **(524)** |

# Statement of financial position of Aegon N.V.

As at December 31

| Before profit appropriation, amounts in EUR million | Note | 2016 | 2015 |
|---|---|---|---|
| **Investments** | | | |
| Shares in group companies | 8 | 22,612 | 24,236 |
| Loans to group companies | 9 | 4,123 | 4,529 |
| | | **26,735** | **28,765** |
| **Receivables** | 10 | | |
| Receivables from group companies | | 80 | 591 |
| Other receivables | | 219 | 63 |
| | | **299** | **654** |
| **Other assets** | | | |
| Cash and cash equivalents | | 879 | 309 |
| Other | 11 | 140 | 111 |
| | | **1,019** | **420** |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | | 15 | 20 |
| **Total assets** | | **28,068** | **29,860** |
| **Shareholders' equity** | | | |
| Share capital | 12 | 319 | 328 |
| Paid-in surplus | 13 | 7,873 | 8,059 |
| Revaluation account | 13 | 5,450 | 6,551 |
| Remeasurement of defined benefit plans of group companies | 13 | (1,820) | (1,532) |
| Legal reserves – foreign currency translation reserve | 13 | 1,316 | 1,264 |
| Legal reserves in respect of group companies | 13 | 1,169 | 1,048 |
| Retained earnings, including treasury shares | 13 | 6,020 | 7,490 |
| Net income / (loss) | 13 | 586 | (524) |
| | | **20,913** | **22,684** |
| Other equity instruments | 14 | 3,797 | 3,800 |
| **Total equity** | | **24,710** | **26,485** |
| **Subordinated borrowings** | 15 | **767** | **759** |
| **Long-term borrowings** | 16 | **1,832** | **1,458** |
| **Other liabilities** | 17 | | |
| Short term deposits | | 128 | 125 |
| Loans from group companies | | 62 | 360 |
| Payables to group companies | | 140 | 337 |
| Deferred tax liability | | 159 | 142 |
| Other | | 242 | 165 |
| | | **731** | **1,129** |
| Accruals and deferred income | | 29 | 29 |
| **Total equity and liabilities** | | **28,068** | **29,860** |

# Notes to the financial statements

## 1 General information

Aegon N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague 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 preparation

The financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 2:362.8 of the Netherlands Civil Code, the valuation principles applied are based on International Financial Reporting Standards as adopted by the EU (IFRS-EU), as used for the preparation of the consolidated financial statements of the Group.

### 2.2 Foreign exchange translation

Aegon N.V.'s financial statements are prepared in euros, which is also Aegon N.V.'s functional currency. The euro is also the currency of the primary economic environment in which Aegon N.V. operates. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing at the date of the transaction.

At the reporting date, monetary assets, monetary liabilities and own equity instruments in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, 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 equity as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items carried at fair value are recognized in equity or the income statement, consistently with other gains and losses on these items.

### 2.3 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon N.V. has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. 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.

### 2.4 Investments

The group companies are stated at their net asset value, determined on the basis of IFRS-EU as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

Other investments are financial assets recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased. They are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in equity.

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.

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash collateral received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash (collateral) paid by Aegon. The difference between sale and repurchase price is treated as investment income. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

### 2.5 Derivatives

All derivatives are recognized on the statement of financial position at fair value. All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net foreign investment. Derivatives with positive fair values are reported as other assets and derivatives with negative values are reported as other liabilities.

### 2.6 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments 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 investment or investment for account of policyholders.

### 2.7 Other assets and receivables

Other assets include fixed assets, derivatives with positive fair values, other receivables and prepaid expenses. Other receivables are recognized at fair value and are subsequently measured at amortized cost.

### 2.8 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. Tangible, intangible and financial assets, if not held at fair value through profit or loss, are tested for impairment when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets that are not amortized are tested at least annually. For assets denominated in a foreign currency, a decline in the foreign exchange rates is considered an indication of impairment.

### 2.9 Equity

Financial instruments that are issued by the Company are classified as equity if they represent a residual interest in the assets of the Company after deducting all of its liabilities and the Company has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. In addition to common shares and preferred shares, the Company has issued perpetual securities. Perpetual securities have no final maturity date, repayment is at the discretion of Aegon and for junior perpetual capital securities Aegon has the option to defer coupon payments at its discretion. The perpetual capital securities are classified as equity rather than debt, are measured at par and those that are denominated in US dollars are translated into euro using historical exchange rates.

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.

Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Revaluation account includes unrealized gains and losses on available-for-sales assets and the positive changes in value that have been recognized in net income/(loss) relating to investments (including real estate) and which do not have a frequent market listing.

Legal reserves in respect of group companies include net increases in net asset value of subsidiaries and associates since their first inclusion, less any amounts that can be distributed without legal restrictions.

Treasury shares are own equity instruments reacquired by the Group. They are deducted from shareholders' equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders' equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per common share.

### 2.10 Borrowings

A financial instrument issued by the Company is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the Company.

Borrowings are initially recognized at their fair value including directly attributable transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through the profit and loss as part of a fair value hedge relationship. The liability is derecognized when the Company's obligation under the contract expires or is discharged or cancelled.

Borrowings include the liability component of non-cumulative subordinated notes. These notes are identified as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into equity components and liability components. The liability component for the non-cumulative subordinated notes is related to the redemption amount. For further information on accounting policy of the non-cumulative subordinated notes refer to note 2.9.

### 2.11 Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Investment income includes the interest income of intercompany loans and derivatives.

### 2.12 Results from financial transactions

Results from financial transactions include:

#### 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.

#### Other

In addition, results from financial transactions include net foreign currency gains/(losses) and net fair value change on borrowings and other financial liabilities.

### 2.13 Interest charges and related fees

Interest charges and related fees includes interest expense on subordinated and long-term borrowings. Interest expense on these borrowings carried at amortized cost is recognized in profit or loss using the effective interest method

### 2.14 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.

### 2.15 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 Investment income

Investment income consists of interest income of intercompany loans and interest income from derivatives.

| | **2016** | 2015 |
|---|---|---|
| Interest income from intercompany loans | 104 | 140 |
| Interest income from derivatives | 17 | 21 |
| **Total Investment Income** | **121** | **161** |

## 4 Results from financial transactions

| | **2016** | 2015 |
|---|---|---|
| **Results from financial transactions comprise:** | | |
| Net fair value change of derivatives | (68) | (39) |
| Net foreign currency gains and (losses) | (2) | 4 |
| Net fair value change on borrowings and other financial liabilities | 2 | 2 |
| **Total** | **(68)** | **(33)** |

Net fair value change of derivatives mostly comprises of Fair value changes on derivatives that are designated as economic hedges for which no hedge accounting is applied.

## 5 Commissions and expenses

| | **2016** | 2015 |
|---|---|---|
| Employee expenses | 80 | 67 |
| Administration expenses | 73 | 57 |
| Cost sharing | (85) | (67) |
| **Total** | **68** | **57** |

## 6 Interest charges and related fees

| | **2016** | 2015 |
|---|---|---|
| Subordinated borrowings | 34 | 33 |
| Borrowings | 68 | 95 |
| Other | 4 | 6 |
| **Total** | **106** | **134** |

## 7 Income tax

| | 2016 | 2015 |
|---|---|---|
| **Current Tax** | | |
| - Current Tax | 25 | 14 |
| - Adjustment to prior years | - | 10 |
| **Income tax for the period (income) / charge** | **25** | **24** |
| | | |
| **Reconciliation between standard and effective tax** | | |
| Income before tax | (121) | (63) |
| Tax on IFRS-EU income | 30 | 16 |
| Differences due to the effect of: | | |
| Non deductible expenses | (6) | (2) |
| Adjustment to prior years | - | 10 |
| **Total** | **25** | **24** |

## 8 Shares in group companies

| | 2016 | 2015 |
|---|---|---|
| At January 1 | 24,236 | 27,517 |
| Capital contributions and acquisitions | 210 | 394 |
| Divestments and capital repayments | (895) | - |
| Dividend received | (181) | (2,570) |
| Net income / (loss) for the financial year | 682 | (485) |
| Revaluations | (1,440) | (621) |
| **At December 31** | **22,612** | **24,236** |

For a list of names and locations of the most important group companies, refer to note 52 Group companies of the consolidated financial statements of the Group. The legally required list of participations as set forth in article 379 of Book 2 of the Netherlands Civil Code has been registered with the Commercial Register of The Hague.

## 9 Loans to group companies

| | 2016 | 2015 |
|---|---|---|
| **Loans to group companies – long-term** | | |
| At January 1 | 3,137 | 3,874 |
| Additions / (repayments) | (1,248) | (1,155) |
| Other changes | 45 | 418 |
| **At December 31** | **1,934** | **3,137** |
| | | |
| **Loans to group companies – short-term** | | |
| At January 1 | 1,392 | 142 |
| Additions / (repayments) | 746 | 1,268 |
| Other changes | 51 | (18) |
| **At December 31** | **2,189** | **1,392** |
| **Total** | **4,123** | **4,529** |

## 10 Receivables

Receivables from group companies and other receivables have a maturity of less than one year. Other receivables include an income tax receivable of EUR 219 million (2015: EUR 63 million).

Aegon N.V., together with certain of its subsidiaries, is part of a tax grouping for Dutch corporate income tax purposes. The members of the fiscal entity are jointly and severally liable for any taxes receivable or payable by the Dutch tax grouping.

## 11 Other assets

Other assets include derivatives with positive fair values of EUR 135 million (2015: EUR 106 million).

## 12 Share capital

| Issued and outstanding capital | 2016 | 2015 |
|---|---|---|
| Common shares | 249 | 258 |
| Common shares B | 70 | 71 |
| **Total share capital** | **319** | **328** |

| Authorized capital | 2016 | 2015 |
|---|---|---|
| Common shares | 720 | 720 |
| Common shares B | 360 | 360 |
| **At December 31** | **1,080** | **1,080** |

| Par value in cents per share | 2016 | 2015 |
|---|---|---|
| Common shares | 12 | 12 |
| Common shares B | 12 | 12 |

All issued common shares and common shares B each have a nominal value of EUR 0.12 and are fully paid up. Repayment of capital can only be initiated by the Executive Board, is subject to approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on common shares B needs approval of the related shareholders. Refer to Other information for further information on dividend rights.

Vereniging Aegon, based in The Hague, the Netherlands, holds all of the issued and outstanding common shares B.

In 2016, Vereniging Aegon decided not to exercise its option rights to purchase common shares B, since its special cause voting rights at the time of the issuance of shares in connection with the Long Term Incentive Plans for senior management already exceeded 32.6% due to the execution of the EUR 400 million Share Buyback program. As a consequence, such issuance of shares would not result in dilution of Vereniging Aegon's voting rights.

In 2015, Vereniging Aegon exercised its option rights to purchase in aggregate 3,696,440 common shares B at market value. It did this to prevent dilution caused by Aegon's issuance of shares, in connection with the Long Term Incentive Plans for senior management.

The following table shows the movement during the year in the number of common shares:

| Number of common shares (thousands) | 2016 | 2015 |
|---|---|---|
| At January 1 | 2,147,037 | 2,145,948 |
| Dividend | 10,629 | 1,089 |
| Shares withdrawn | (83,117) | - |
| **At December 31** | **2,074,549** | **2,147,037** |

The following table shows the movement during the year in the number of common shares B:

| Number of common shares B (thousands) | 2016 | 2015 |
|---|---|---|
| At January 1 | 585,022 | 581,326 |
| Shares issued | - | 3,696 |
| **At December 31** | **585,022** | **585,022** |

The weighted average number of EUR 0.12 common shares for 2016 was 2,047,503,660 (2015: 2,102,813,138).

The weighted average number of EUR 0.12 common shares B for 2016 was 575,128,960 (2015: 583,607,720).

The shares repurchased by Aegon N.V. during the share-buy-back programs to undo the dilution caused by the distribution of dividend in stock, although included in the issued and outstanding number of shares, are excluded from the calculation of the weighted average number of shares.

### Long-term incentive plan, share appreciation rights and share options

For detailed information on the Long Term Incentive Plans, share appreciation rights and share options granted to senior executives and other Aegon employees, refer to note 14 Commissions and expenses to the consolidated financial statements of the Group.

### Board remuneration

Detailed information on remuneration of active and retired members of the Executive Board including their share and share option rights, remuneration of active and retired members of the Supervisory Board along with information about shares held in Aegon by the members of the Boards is included in note 53 Related party transactions to the consolidated financial statements of the Group.

## 13 Shareholders' equity

| | Share capital | Paid- in surplus | Revaluation account | Remeasurement of defined benefit plans of group companies | Legal reserves FCTR | Legal reserves group companies | Retained earnings | Treasury shares | Net income/ (loss) | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2016 | 328 | 8,059 | 6,551 | (1,532) | 1,264 | 1,048 | 7,759 | (269) | (524) | 22,684 |
| Net income 2015 retained | - | - | - | - | - | - | (524) | - | 524 | - |
| Net income 2016 | - | - | - | - | - | - | - | - | 586 | 586 |
| **Total net income / (loss)** | **-** | **-** | **-** | **-** | **-** | **-** | **(524)** | **-** | **1,110** | **586** |
| Foreign currency translation differences and movement in foreign investment hedging reserves | - | - | - | 16 | 52 | - | - | - | - | 68 |
| Changes in revaluation subsidiaries | - | - | (1,090) | - | - | - | - | - | - | (1,090) |
| Remeasurement of defined benefit plans of group companies | - | - | - | (304) | - | - | - | - | - | (304) |
| Transfer to legal reserve | - | - | (11) | - | - | 121 | (97) | - | - | 12 |
| Other | - | - | - | - | - | - | (2) | - | - | (2) |
| **Other comprehensive income / (loss)** | **-** | **-** | **(1,101)** | **(288)** | **52** | **121** | **(99)** | **-** | **-** | **(1,316)** |
| Shares issued | 1 | - | - | - | - | - | - | - | - | 1 |
| Shares withdrawn | (10) | - | - | - | - | - | (372) | - | - | (382) |
| Dividend common shares | - | (186) | - | - | - | - | (304) | - | - | (490) |
| Dividend withholding tax reduction | - | - | - | - | - | - | (2) | - | - | (2) |
| Treasury shares | - | - | - | - | - | - | (106) | 79 | - | (27) |
| Coupons and premium on convertible core capital securities and coupon on perpetual securities, net of tax | - | - | - | - | - | - | (133) | - | - | (133) |
| Repurchased and sold own shares | - | - | - | - | - | - | (9) | - | - | (9) |
| **At December 31, 2016** | **319** | **7,873** | **5,450** | **(1,820)** | **1,316** | **1,169** | **6,210** | **(190)** | **586** | **20,913** |

| | Share capital | Paid- in surplus | Revaluation account | Remeasurement of defined benefit plans of group companies | Legal reserves FCTR | Legal reserves group companies | Retained earnings | Treasury shares | Net income/ (loss) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At January 1, 2015 (as previously stated)** | 327 | 8,270 | 8,335 | (1,611) | (105) | 2,542 | 5,668 | (319) | 1,186 | 24,293 |
| Changes in accounting policies relating to Deferred cost of reinsurance | - | - | - | - | (9) | - | (109) | - | 8 | (110) |
| **At January 1, 2015 (restated) [1)]** | 327 | 8,270 | 8,335 | (1,611) | (114) | 2,542 | 5,559 | (319) | 1,194 | 24,183 |
| Net income 2014 retained | - | - | - | - | - | - | 1,194 | - | (1,194) | - |
| Net income 2015 | - | - | - | - | - | - | - | - | (524) | (524) |
| **Total net income / (loss)** | **-** | **-** | **-** | **-** | **-** | **-** | **1,194** | **-** | **(1,719)** | **(524)** |
| Foreign currency translation differences and movement in foreign investment hedging reserves | - | - | - | (86) | 1,378 | - | - | - | - | 1,292 |
| Changes in revaluation subsidiaries | - | - | (1,837) | - | - | - | - | - | - | (1,837) |
| Remeasurement of defined benefit plans of group companies | - | - | - | 165 | - | - | - | - | - | 165 |
| Transfer to legal reserve | - | - | 53 | - | - | (1,494) | 1,433 | - | - | (8) |
| Other | - | - | - | - | - | - | 10 | - | - | 10 |
| **Other comprehensive income / (loss)** | **-** | **-** | **(1,784)** | **79** | **1,378** | **(1,494)** | **1,443** | **-** | **-** | **(378)** |
| Shares issued | 1 | - | - | - | - | - | - | - | - | 1 |
| Dividend common shares | - | (211) | - | - | - | - | (292) | - | - | (503) |
| Dividend withholding tax reduction | - | - | - | - | - | - | 1 | - | - | 1 |
| Treasury shares | - | - | - | - | - | - | 1 | 50 | - | 51 |
| Coupons and premium on convertible core capital securities and coupon on perpetual securities, net of tax | - | - | - | - | - | - | (139) | - | - | (139) |
| Other | - | - | - | - | - | - | (8) | - | - | (8) |
| **At December 31, 2015** | **328** | **8,059** | **6,551** | **(1,532)** | **1,264** | **1,048** | **7,759** | **(269)** | **(524)** | **22,684** |

[1] Refer to note 2.1.2 Voluntary changes in accounting policies of the consolidated financial statements of Aegon N.V. for details about these changes.

The balance of the revaluation account, which includes revaluation reserves for real estate and investments that do not have a frequent market listing, consisted for EUR 6,113 million (2015: EUR 7,613 million) of items with positive revaluation and for EUR 663 million of items with negative revaluation (2015: EUR 1,062 million).

The revaluation account and legal reserves, foreign currency translation reserve and other, can not be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

Certain of Aegon's subsidiaries, principally insurance companies, are subject to restrictions on the amounts of funds they may transfer in the form of cash dividends or otherwise to their parent companies. There can be no assurance that these restrictions will not limit or restrict Aegon in its ability to pay dividends in the future.

On the reporting date, Aegon N.V., and its subsidiaries held 48,780,045 of its own common shares (2015: 44,531,558) with a nominal value of EUR 0.12 each. Most of the shares have been purchased to neutralize the dilution effect of issued share dividend and to hedge share based payment plans for executives and employees. Aegon N.V. held 17,324,960 of its own common shares B (2015: nil) with a nominal value of 0.12 each. Movements in the number of repurchased own shares held by Aegon N.V. were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Number of shares (thousands)** | **Amount** | Number of shares (thousands) | Amount |
| At January 1 | 42,998 | 257 | 49,537 | 306 |
| **Transactions in 2016** | | | | |
| Purchase: transactions, average price EUR 4.81 | 83,117 | 400 | | |
| Sale: transactions, price average EUR 6.49 | (6,153) | (40) | | |
| Sale: 1 transaction, price EUR 6.38 | (20,137) | (129) | | |
| Purchase: transactions, average price EUR 3.51 | 29,259 | 103 | | |
| Sale: 1 transaction, price EUR 5.11 | (29,259) | (150) | | |
| Shares withdrawn: 1 transaction, price EUR 4.60 | (83,117) | (382) | | |
| Purchase: transactions, average price EUR 3.84 | 30,765 | 118 | | |
| **Transactions in 2015:** | | | | |
| Sale: 1 transaction, price EUR 7.24 | | | (7,628) | (47) |
| Sale: 1 transaction, price EUR 6.62 | | | (16,280) | (93) |
| Purchase: transactions, average price EUR 6.63 | | | 16,280 | 108 |
| Sale: 1 transaction, price EUR 5.40 | | | (19,047) | (123) |
| Purchase: transactions, average price EUR 5.28 | | | 20,137 | 106 |
| **At December 31** | **47,473** | **178** | **42,998** | **257** |

Furthermore Aegon repurchased 17,324,960 common shares B for EUR 0.11 each, representing a total amount of EUR 2 million.

As part of their insurance and investment operations, subsidiaries within the Group also hold Aegon N.V. common shares, both for their own account and for account of policyholders. These shares have been treated as treasury shares and are included at their consideration paid or received.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Number of shares (thousands)** | **Total amount** | Number of shares (thousands) | Total amount |
| **Common shares** | | | | |
| Held by Aegon N.V. | 47,473 | 178 | 42,998 | 257 |
| Held by subsidiaries | 1,307 | 10 | 1,534 | 12 |
| **Common shares B** | | | | |
| Held by Aegon N.V. | 17,325 | 2 | - | - |
| **At December 31** | **66,105** | **190** | **44,532** | **269** |

The treasury shares B are held by Aegon N.V. and entail 17,324,960 shares with a total amount of EUR 2. There were no treasury shares B in 2015.

The consideration for the related shares is deducted from or added to the retained earnings.

## 14 Other equity instruments

| | Junior perpetual capital securities | Perpetual cumulative subordinated bonds | Share options and incentive plans | Non-cumulative subordinated notes | Total |
|---|---|---|---|---|---|
| At January 1, 2016 | 3,008 | 454 | 68 | 271 | 3,801 |
| Shares granted / Share options cost incurred | - | - | 13 | - | 13 |
| Shares vested / Share options forfeited | - | - | (16) | - | (16) |
| **At December 31, 2016** | **3,008** | **454** | **65** | **271** | **3,797** |
| At January 1, 2015 | 3,008 | 454 | 94 | 271 | 3,827 |
| Shares granted / Share options cost incurred | - | - | 26 | - | 26 |
| Shares vested / Share options forfeited | - | - | (53) | - | (53) |
| **At December 31, 2015** | **3,008** | **454** | **68** | **271** | **3,800** |

| **Junior perpetual capital securities** | Coupon rate | Coupon date, as of | Year of next call | **2016** | 2015 |
|---|---|---|---|---|---|
| USD 500 million | 6.50% | Quarterly, December 15 | 2017 | 424 | 424 |
| USD 250 million | floating LIBOR rate [1] | Quarterly, December 15 | 2017 | 212 | 212 |
| USD 500 million | floating CMS rate [2] | Quarterly, July 15 | 2017 | 402 | 402 |
| USD 1 billion | 6.375% | Quarterly, June 15 | 2017 | 821 | 821 |
| EUR 950 million | floating DSL rate [3] | Quarterly, July 15 | 2017 | 950 | 950 |
| EUR 200 million | 6.0% | Annually, July 21 | 2017 | 200 | 200 |
| **At December 31** | | | | **3,008** | **3,008** |

[1] The coupon of the USD 250 million junior perpetual capital securities is reset each quarter based on the then prevailing three-month LIBOR yield plus a spread of 87.5 basis points, with a minimum of 4%.
[2] The coupon of the USD 500 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year US dollar interest rate swap yield plus a spread of ten basis points, with a maximum of 8.5%.
[3] The coupon of the EUR 950 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year Dutch government bond yield plus a spread of ten basis points, with a maximum of 8%.

The interest rate exposure on some of these securities has been swapped to a three-month LIBOR and/or EURIBOR based yield.

The securities have been issued at par. The securities have subordination provisions, rank junior to all other liabilities and senior to shareholders' equity only. The conditions of the securities contain certain provisions for optional and required coupon payment deferral and mandatory coupon payment events. Although the securities have no stated maturity, Aegon has the right to call the securities for redemption at par for the first time on the coupon date in the years as specified, or on any coupon payment date thereafter.

| **Perpetual cumulative subordinated bonds** | Coupon rate | Coupon date | Year of next call | **2016** | 2015 |
|---|---|---|---|---|---|
| EUR 136 million | 5.185% [1], [4] | Annual, October 14 | 2018 | 136 | 136 |
| EUR 203 million | 4.260% [2], [4] | Annual, March 4 | 2021 | 203 | 203 |
| EUR 114 million | 1.506% [3], [4] | Annual, June 8 | 2025 | 114 | 114 |
| **At December 31** | | | | **454** | **454** |

[1] The coupon of the EUR 136 million bonds was originally set at 7.25% until October 14, 2008. Subsequently, the coupon has been reset at 5.185% until October 14, 2018.
[2] The coupon of the EUR 203 million bonds was originally set at 7.125% until March 4, 2011. Subsequently, the coupon has been reset at 4.26% until March 4, 2021.
[3] The coupon of the EUR 114 million bonds was originally set at 8% until June 8, 2005. Subsequently, the coupon has been reset at 4.156% until 2015 and 1.506% until 2025.
[4] If the bonds are not called on the respective call dates and after consecutive period of ten years, the coupons will be reset at the then prevailing effective yield of ten-year Dutch government securities plus a spread of 85 basis points.

The bonds have the same subordination provisions as dated subordinated debt. In addition, the conditions of the bonds contain provisions for interest deferral.

Although the bonds have no stated maturity, Aegon has the right to call the bonds for redemption at par for the first time on the coupon date in the year of next call.

| **Non-cumulative subordinated notes** | Coupon rate | Coupon date, as of | Year of next call | **2016** | 2015 |
|---|---|---|---|---|---|
| USD 525 million | 8% | Quarterly, February 15 | 2017 | 271 | 271 |
| **At December 31** | | | | **271** | **271** |

On February 7, 2012, Aegon issued USD 525 million in aggregate principal amount of 8.00% non-cumulative subordinated notes, due 2042, in an underwritten public offering in the United States registered with the US Securities and Exchange Commission. The subordinated notes bear interest at a fixed rate of 8.00% and have been priced at 100% of their principal amount. Any cancelled interest payments will not be cumulative.

The securities are subordinated and rank senior to the junior perpetual capital securities, equally with the perpetual cumulative subordinated bonds and fixed floating subordinated notes, and junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required cancellation of interest payments. The securities have a stated maturity of 30 years, however, Aegon has the right to call the securities for redemption at par for the first time on the first coupon date in August 2017, or on any coupon payment date thereafter.

These notes are recognized as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into an equity component and a liability component. At December 31, 2016, the equity component amounted to EUR 271 million (2015: EUR 271 million), subordinated borrowings amounted to EUR 72 million (2015: EUR 65 million) and a deferred tax liability amounting to EUR 106 million (2015: EUR 105 million).

Refer to note 15 Subordinated borrowings for details of the component classified as subordinated borrowings.

## 15 Subordinated borrowings

| | Coupon rate | Coupon date | Year of next call | **2016** | 2015 |
|---|---|---|---|---|---|
| **Fixed floating subordinated notes** | | | | | |
| EUR 700 million | 4% | Annually, April 25 | 2024 | 695 | 694 |
| **Non-cumulative subordinated notes** | | | | | |
| USD 525 million | 8% | Quarterly, February 15 | 2017 | 72 | 65 |
| **At December 31** | | | | **767** | **759** |

On April 25, 2014, Aegon issued EUR 700 million of subordinated notes, first callable on April 25, 2024, and maturing on April 25, 2044. The coupon is fixed at 4% until the first call date and floating thereafter.

These securities are subordinated and rank senior to the junior perpetual capital securities, equally with the perpetual cumulative subordinated bonds, fixed floating subordinated notes and non-cumulative subordinated notes, and junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required deferral of interest payments. There have been no defaults or breaches of conditions during the period.

Subordinated borrowings include a liability of EUR 72 million (2015: EUR 65 million) relating to the USD 525 million non-cumulative subordinated notes issued on February 7, 2012. The liability component of the non-cumulative subordinated notes is related to the redemption amount. For further information on the non-cumulative subordinated notes and their subordination refer to note 14 Other equity instruments.

## 16 Long-term borrowings

| | **2016** | 2015 |
|---|---|---|
| Remaining terms less than 1 year | 500 | - |
| Remaining terms 1 - 5 years | 84 | 586 |
| Remaining terms 5 - 10 years | - | - |
| Remaining terms over 10 years | 1,248 | 872 |
| **At December 31** | **1,832** | **1,458** |

The repayment periods of borrowings vary from within one year up to a maximum of 25 years. The interest rates vary from 1.000% to 6.625% per annum. The market value of the long-term borrowings amounted to EUR 2,221 million (2015: EUR 1,821 million).

## 17 Other liabilities

Loans from and payables to group companies have a maturity of less than one year. Other includes derivatives with negative fair values of EUR 233 million (2015: EUR 149 million).

## 18 Commitments and contingencies

Aegon N.V. entered into a contingent capital letter for an amount of JPY 6 billion (EUR 49 million) to support its joint venture Aegon Sony Life Insurance Company meeting local statutory requirements.

Aegon N.V. has guaranteed and is severally liable for the following:

- Due and punctual payment of payables due under letter of credit agreements applied for by Aegon N.V. as co-applicant with its captive insurance companies that are subsidiaries of Transamerica Corporation and Commonwealth General Corporation. At December 31, 2016, the letter of credit arrangements utilized by captives to provide collateral to affiliates amounted to EUR 3,720 million (2015: EUR 3,750 million); as of that date no amounts had been drawn, or were due under these facilities. Other letter of credit arrangements for subsidiaries amounted to EUR 104 million (2015: EUR 235 million); as of that date no amounts had been drawn, or were due under these facilities;
- Due and punctual payment of payables due under letter of credit agreements or guarantees provided for subsidiaries of Transamerica Corporation at December 31, 2016 amounted to EUR 3,563 million (2015: EUR 3,467 million) as of that date no amounts had been drawn, or were due under letter of credit facilities. The guarantees partly related to debt amounted to EUR 1,505 million (2015: EUR 1,448 million) and is included in the Operational funding table in note 39 Borrowings of the consolidated financial statements of the Group in the line 'USD 1.54 billion Variable Funding Surplus Note';
- Due and punctual payment of payables by the consolidated group companies Transamerica Corporation, Aegon Funding Company LLC and Commonwealth General Corporation with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs amounted to EUR 633 million (2015: EUR 615 million); and
- Due and punctual payment of any amounts owed to third parties by the consolidated group company Aegon Derivatives N.V. in connection with derivative transactions. Aegon Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore limited as of December 31, 2016.

## 19 Number of employees

There were no employees employed by Aegon N.V. in 2016. Other than Mr. Wynaendts there were no employees employed by Aegon N.V. in 2015.

## 20 Accountants remuneration

| | Total remuneration | | Of which PricewaterhouseCoopers Accountants N.V. (NL) | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Audit | 27 | 20 | 9 | 8 |
| Other audit | 3 | 2 | 1 | - |
| **Total** | **30** | **22** | **10** | **8** |

## 21 Events after the reporting period

On January 1, 2017, Aegon completed the acquisition of Cofunds, following regulatory approval.

## 22 Proposal for profit appropriation

At the Annual General Meeting of Shareholders on May 19, 2017, the Executive Board will, absent unforeseen circumstances, propose a final dividend for 2016 of EUR 0.13 per common share and EUR 0.00325 per common share B. The final dividend will be paid in cash or stock at the election of the shareholder. The value of the stock dividend will be approximately equal to the cash dividend.

If the proposed dividend is approved by shareholders, Aegon shares will be quoted ex-dividend on May 22, 2017, for the shares listed on the New York Stock Exchange and on May 23, 2017, for shares listed on Euronext. The record date for the dividend will be May 24, 2017. Shareholders can elect to receive a dividend in cash or in shares during the dividend election period, which will run from May 30, 2017 up to and including June 16, 2017. The dividend will be payable as of June 23, 2017.

In order to reflect the prevailing market price of Aegon N.V. common shares fully within the indication provided, the number of dividend coupons that give entitlement to a new common share of EUR 0.12 (nominal value) will be determined on June 16, 2017 after 5.30 p.m. (CET), based on the average share price on Euronext Amsterdam in the five trading days from June 12, 2017 up to and including June 16, 2017.

| | **2016** | 2015 |
|---|---|---|
| Final dividend on common shares | 265 | 274 |
| Earnings to be retained | 321 | (798) |
| **Net income attributable to owners of Aegon N.V.** | **586** | **(524)** |

**The Hague, the Netherlands, March 22, 2017**

**Supervisory Board**

Robert J. Routs
Robert W. Dineen
Shemaya Levy
Ben J. Noteboom
Ben van der Veer
Dirk P.M. Verbeek
Corien M. Wortmann-Kool
Dona D. Young

**Executive Board**

Alex Wynaendts

# Independent auditor's report

To: The Annual General Meeting of Shareholders and Supervisory Board of Aegon N.V.

## Report on the financial statements 2016

### Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Aegon N.V. and its subsidiaries as at December 31, 2016, and of its results and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.
- the stand-alone financial statements give a true and fair view of the financial position of Aegon N.V. as at December 31, 2016 and of its results for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the accompanying financial statements 2016 of Aegon N.V., The Hague, the Netherlands ('the Company'). The financial statements include the consolidated financial statements of Aegon N.V. and its subsidiaries (together: 'the Group') and the stand-alone financial statements of the Company.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The stand-alone financial statements comprise:

- the statement of financial position as at December 31, 2016;
- the income statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRS-EU and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the stand-alone financial statements.

### The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

#### Independence

We are independent of Aegon N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

#### Overview and context

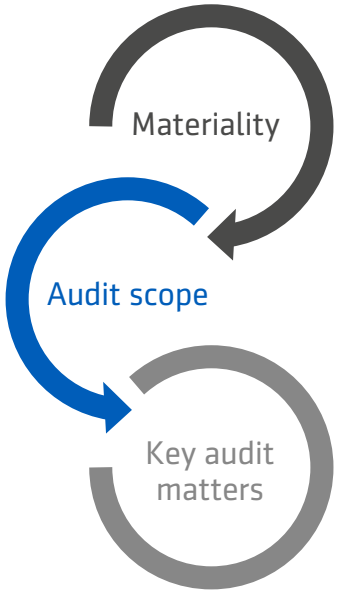
Aegon N.V. is a provider of life insurance, pensions and asset management. The Aegon Group comprises of several components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section. Aegon's main operating units are separate legal entities and operate under the laws of their respective countries. Aegon has operations in, amongst others the United States, Mexico and Brazil, the Netherlands, the United Kingdom, Central & Eastern Europe and Spain & Portugal and Asia.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 3 and 47 of the financial statements the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty the valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models, valuation of deferred policy acquisition costs (DPAC) and value of business acquired (VOBA), determining the fair value of 'hard to value' financial instruments and uncertainties in policyholder claims and litigation, we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, we identified the sale of the UK Annuity Portfolio in two parts as key audit matter because of the complexity of the transaction and its non-routine nature.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. Furthermore, we addressed information technology general controls ('ITGCs'), that are the policies and procedures used by the Company to ensure information technology ('IT') operates as intended and provides reliable data for financial reporting purposes, where relevant for our audit.

We ensured that the audit teams both at Group and at component levels included the appropriate skills and competencies which are needed for the audit of a complex global financial conglomerate, such as Aegon N.V. This included industry expertise in life and non-life insurance, banking and asset management, as well as specialists including actuaries, IT auditors, treasury, tax, corporate responsibility, remuneration and valuation specialists.

The outlines of our audit approach were as follows:




**Materiality**

- Overall materiality: EUR 65 million which represents circa 5% of a three year average of income before tax.

**Audit scope**

- We conducted audit work on six regional units, of which three are considered to be individually significant.
- In order to take responsibility for the entire Group, the Group engagement team performed oversight procedures on the work of component teams for all in scope regional units including the Netherlands, the Americas, the United Kingdom, Central and Eastern Europe, Spain and Aegon Asset Management.

**Key audit matters**

- Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation.
- Deferred policy acquisition costs (DPAC) and value of business acquired (VOBA).
- Fair value of 'hard to value' financial instruments.
- Uncertainties in policyholder claims and litigation.
- Sale of the UK annuity portfolio in two parts.

## Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibility for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overal group materiality | EUR 65 million (2015: EUR 65 million). |
| How we determined it | Circa 5% of a three year average of income before tax including normalizing 2016 and 2015 income before tax excluding the realized loss from the sale of the UK annuities business in 2016 and the sale of the Canadian operations in 2015, respectively. |
| Rationale for benchmark applied | We evaluated the income before tax amounts for 2016 and prior years noting significant fluctuations from year to year. As a result, we used the average of 2016, 2015 and 2014 income before tax for purposes of determining our group materiality. Using an average helps to maintain an appropriate materiality level giving more consideration to the users' view of the scale of the financial position and poerations rather than volatile cicumstances. Also, to normalize the 2016 and 2015 income before tax given the infrequent nature of the event, we excluded the realized loss from the sale of the UK annuities business and Canadian operations. The sale of the UK annuities business and Canadian operations was in scope of our audits. Refer to the key audit matter section of this report. |
| Component materiality | To each component in our audit scope based on our judgement, we allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was based on the relative size of the component. The allocated materiality was between EUR 20 million and EUR 60 million. |

We also take misstatements and or possible misstatements into account that, in our judgement, are material for qualitative reasons. For example, certain items, such as related party transactions, management remuneration disclosures and going concern disclosures are subject to lower materiality levels when planning and executing our audit procedures as they are of particular interest to the reader of the financial statements and may otherwise not be subject to audit procedures in the context of the Group as a whole.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 4 million (2015: EUR 4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### The scope of our group audit

Our engagement consists of review procedures on the Q1 2016, Q2 2016 and Q3 2016 condensed consolidated interim financial statements and the 2016 year-end audit as discussed herein. Aegon N.V. is the parent of a group of entities. The Group is structured predominately along geographical lines referred to as 'regional units'. The financial information of the Group is included in the consolidated financial statements of the Company.

The regional units supported by local finance, risk management, actuarial and tax functions, maintain their own accounting records and controls and report to the Group finance team in The Hague, the Netherlands through an integrated consolidation system. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of the regional units by us, the Group engagement team, or component auditors within PwC Netherlands and from component auditors operating under our instructions.

In our view, due to their significance and/or risk characteristics, the individually significant regional units of the Americas, the United Kingdom and the Netherlands required a full-scope audit of their financial information. Specific audit procedures on certain account balances and classes of transactions were also performed in relation to, amongst others, Central and Eastern Europe, Spain and Asset Management to ensure we obtained appropriate coverage across all account balances.

Taken together, and excluding our group analytical procedures, our audit coverage as defined in percentages in the table below is based on the full scope audits performed as well as the audit procedures of specific account balances as described above.

| | |
|---|---|
| Revenue | 98% |
| Total assets | 96% |
| Profit before tax | 94% |

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where the work was performed by component auditors, we determined the level of the involvement of the group audit team we needed to have in the audit work at those regional units. This determination was made in order for us to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. In addition to issuing written instructions to each of the component teams, we developed an oversight strategy for each regional unit based on its significance and/or risk characteristics to the Group. These strategies included procedures such as regular meetings and discussions with component auditors to challenge and review significant audit matters and judgements within the component team audit files, extensive reporting to the Group team on a quarterly basis and regular site visits to attend closing meetings and/or local board meetings.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Audit Committee and Supervisory Board, but they are not a comprehensive reflection of all matters that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

With regards to the comparison of key audit matters between 2016 and 2015, we determined the Sale of the UK annuities business in two parts to be an additional key audit matter in 2016. We also determined that Disclosure and estimated impact to equity and income before tax as a result of adoption of voluntary changes in accounting policies was no longer a key audit matter in 2016.

Due to the nature of the insurance industry and economic environment the following key audit matters are consistent with the prior year.

- Valuation of insurance contracts and insurance contracts for account of policyholders. including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation.
- Deferred policy acquisition costs (DPAC) and value of business acquired (VOBA).
- Fair value of 'hard to value' financial instruments.
- Uncertainties in policyholder claims and litigation.

In the table below, we describe the key audit matters and included a summary of the audit procedures we performed on those matters.

| Key audit matter | How our audit addressed the matter |
|---|---|
| *Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation*<br>Refer to Note 2.19 'Summary of significant accounting policies-insurance contracts' Note 5 'Segment Information' and Note 36 'Insurance contracts'.<br><br>The Group has insurance contract liabilities stated at EUR 240.5 billion at December 31, 2016 representing 59.9% of the Group's total liabilities. This is an area that involves significant judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term policyholder liabilities, and therefore we considered it a key matter for our audit.<br><br>Consistent with the insurance industry, the Company uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design or application of the models. Economic assumptions such as investment return and interest rates and actuarial assumptions such as mortality, morbidity and customer behavior are key inputs used to estimate these long-term liabilities. Significant judgement is applied in setting these assumptions.<br><br>During 2016, the Company continued a multi-year review of their actuarial models with continued focus on those considered medium and high risk. These model updates in combination with the Company's actuarial and economic assumptions update resulted in certain charges being recorded for the year as explained in Note 3 'Critical accounting estimates and judgment in applying accounting policies'.<br><br>In 2016, management changed the segment measurement of underlying earnings before tax by including the impact from assumption updates as part of 'Other income/(charges)' rather than as part of underlying earnings before tax. | We used our own actuarial specialists to assist us in performing our audit procedures.<br><br>In particular, our audit focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions such as the corporate pension guarantees in the Netherlands and guarantees associated with universal life and annuities along with long term care in the Americas.<br><br>We assessed the design and tested the operating effectiveness of internal controls over the actuarial process including management's determination and approval process for setting of economic and actuarial assumptions. We assessed the Company's validation of certain models considered higher risk by the Company as a result of complexity and/or magnitude. We also assessed and tested the internal controls over the Company's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences.<br><br>We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. Furthermore, we performed audit procedures over models and model updates to determine the models and systems were calculating the insurance contracts liabilities accurately and completely.<br><br>We tested the validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Company and industry experience and specific product features.<br><br>We also assessed the adequacy of the disclosures regarding these liabilities in the consolidated financial statements to determine they were in accordance with IFRS-EU as well as the change in the Company's segment measurement following the change in treatment to record assumption updates in 'Other income/(charges)' rather than as part of underlying earnings before tax. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| *DPAC and VOBA*<br>Refer to Note 2.6 'Summary of significant accounting policies-intangible assets', Note 2.13 'Summary of significant accounting policies-deferred expenses' and Notes 29 'Deferred expenses' and 31 'Intangible assets'. DPAC and VOBA represent EUR 12.3 billion or 2.9% of total assets and involve significant judgement in the measurement and assessment of recoverability of these assets. For this reason, they are considered key matters for our audit. The recoverability is based in part on the adequacy of the insurance liabilities and projected future cash flows and, if determined to be insufficient, would trigger a write-down of the asset. The DPAC and VOBA associated with the investment and retirement business in Aegon Americas, which represents 82.6% of total DPAC and VOBA, involves the greatest judgment in terms of measurement and recoverability. The amortization of the DPAC and VOBA asset for these lines of business is based on projected future gross profits. | We used our own actuarial specialists to assist us in performing our audit procedures and paid specific attention to the investment and retirement business in Aegon Americas. We assessed recoverability of DPAC and VOBA through our audit procedures concerning the liability adequacy test as explained in the valuation of insurance contracts key audit matter above.<br><br>Where applicable, we assessed the amortization calculations performed including the appropriateness of the assumptions used in determining the estimated gross profits and the extent of the associated adjustment necessary to the DPAC and VOBA assets.<br><br>Our work in this area included assessing the reasonableness of assumptions such as the projected investment return by comparing against the investment portfolio mix and market data.<br><br>We also considered the adequacy of the Group's disclosures in the consolidated financial statements. |
| *Fair value of 'hard to value' financial instruments*<br>Refer to Note 2.7 'Summary of significant accounting policies-investments' and Note 47 'Fair value'.<br><br>The Group's investment portfolio including net derivative assets totalling EUR 156,3 billion represents 36,7% of the Group's total assets. Quoted prices from liquid market sources can be obtained for a majority of the portfolio.<br><br>The areas that involved significant audit effort and judgement were the valuation of illiquid instruments. These instruments are valued based on models and assumptions that are not observable by third parties which are generally considered model based level II and level III as included in Note 47 'Fair value'. Those investments have a higher potential risk to be affected by error or management bias. Therefore these areas are considered a key matter for our audit. Our focus considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortized cost on the balance sheet but for which fair value is required to be disclosed.<br><br>The risk was not uniform for all investment types and industries and was considered greatest for derivatives, direct and indirect investments in real estate, mortgage loans, asset backed securities, hedge funds, private equity funds and other alternative investments, and unlisted equity and debt securities. | We used our internal valuation specialists to assist us in performing our audit procedures.<br><br>We assessed the design and tested the operating effectiveness of internal controls over the investments' valuation and impairment process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management's review of valuations provided by external experts or data vendors.<br><br>We assessed pricing model methodologies against industry practice and valuation guidelines.<br><br>We compared assumptions used against appropriate benchmarks and pricing sources, investigated significant differences and performed our own independent valuations, using valuation statements, independent broker quotes and underlying financial data, where applicable.<br><br>We evaluated the cash flow and other relevant testing performed by the Group in order to identify any impairment in relation to investments.<br><br>We also assessed whether the Group's disclosures in the consolidated financial statements in relation to the valuation of investments are compliant with the relevant accounting requirements. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| *Uncertainties in policyholder claims and litigation*<br>Refer to note 48 'Commitments and contingencies'.<br><br>The insurance industry continues to face consumer activism and regulatory scrutiny over product design and selling practices. The Company has encountered claims and litigations in this respect. Depending on the actual legal position and expectations from management, claims, including litigation related, are either provided for as a liability or reflected as contingent liabilities in the notes to the financial statements. The Company uses external legal experts where applicable to evaluate its legal positions. Given the uncertainty and judgement in this area we determined this as a key audit matter. | We gained an understanding of the policyholders' claims and litigations through discussions with management including general legal counsel.<br><br>We have read the internal position papers prepared by the Company. We also obtained lawyers' letters to the extent considered necessary for our audit. For all (potentially) material claims we tested the underlying facts and circumstances considered relevant for the legal advisors to come to their assessments and assessed the best estimate of outflows as determined by the Company.<br><br>We also assessed the completeness and adequacy of the related disclosures to determine they were in accordance with IFRS-EU. |
| *Sale of the UK Annuity Portfolio in Two Parts*<br>Refer to Note 51 'Business combinations'.<br><br>The Company sold its UK annuity portfolio in two parts which resulted in a pre-tax book loss of EUR 682 million. The accounting for this transaction is inherently complex and subjective, given that the transaction is in two parts and the resulting loss consisted of several components for which management had to estimate its valuation based on assumptions, such as expected fee income, the reinsurance asset, the deferred income reserve and the gross annuity liabilities. Additionally, due to the non-routine nature of the transaction, there is less likelihood of the transaction being subject to routine internal control procedures. Considering these risks as well as the size of the transaction, we determined this as a key audit matter. | Due to the non-routine nature of the transaction, we took a more substantive approach with respect to this key audit matter. We assessed the contractual terms and conditions of the sale in two parts as well as management's accounting policy and tested the completeness and adequacy of the related disclosures to determine they were in accordance with IFRS-EU.<br><br>We used our own actuarial specialists to assist us in performing our audit procedures.<br><br>We assessed and challenged the assumptions used to calculate the expected fee income and ensured the spreadsheet calculation of the reinsurance asset is in line with the updated accounting policy.<br><br>We assessed the reasonableness of the gross annuity liabilities at the date of sale by looking at the movements in the liabilities since prior year.<br><br>We assessed the reasonableness of the methodology and audited the spreadsheet calculation used to calculate the expected fee income from reinsurers.<br><br>We confirmed that the calculation of the reinsurance asset is in line with the methodology and we assessed supporting evidence of management's interpretation of the underlying reinsurance treaties.<br><br>Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management's rationale for the actuarial judgements applied along with comparison to applicable industry experiences. |

## Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the directors' report, consisting of strategic information and business overview;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- the governance section;
- other financial information;
- additional information.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Our appointment

We were appointed as auditors of Aegon N.V. by the Supervisory Board for the years 2014 to 2016 following the passing of a resolution by the shareholders at the annual meeting held on May 15, 2013 representing a total period of uninterrupted engagement appointment of 3 years.

## Responsibilities for the financial statements and the audit

### Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with IFRS-EU and with Part 9 of Book 2 of the Dutch Civil Code; and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, March 22, 2017
PricewaterhouseCoopers Accountants N.V.

Original has been signed by
R. Dekkers RA

## Appendix to our auditor's report on the financial statements 2016 of Aegon N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

# Other information

## Profit appropriation

Appropriation of profit will be determined in accordance with the articles 31 and 32 of the Articles of Association of Aegon N.V.
The relevant provisions read as follows:

1. The General Meeting of Shareholders will adopt the Annual Accounts;
2. If the adopted profit and loss account shows a profit, the Supervisory Board may decide, upon the proposal of the Executive Board, to set aside part of the profit to augment and/or form reserves;
3. The profits remaining after application of 2 above shall be put at the disposal of the General Meeting of Shareholders. The Executive Board, subject to the approval of the Supervisory Board, shall make a proposal for that purpose. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders;
4. The Executive Board may, subject to the approval of the Supervisory Board, make one or more interim distributions to the holders of common shares and common shares B;
5. Distributions are made in accordance with the principle set forth in article 4 of the Articles of Association of Aegon N.V. that the financial rights attaching to a common share B are one-fortieth (1/40th) of the financial rights attaching to a common share;
6. The Executive Board may, subject to the approval of the Supervisory Board, decide that a distribution on common shares and common shares B shall not take place as a cash payment but as a payment in common shares, or decide that holders of common shares and common shares B shall have the option to receive a distribution as a cash payment and/or as a payment in common shares, out of the profit and/or at the expense of reserves, provided that the Executive Board is designated by the General Meeting to issue shares. Subject to the approval of the Supervisory Board, the Executive Board shall also determine the conditions applicable to the aforementioned choices; and
7. The Company's policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Executive Board. The adoption and thereafter each amendment of the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item.

## Major shareholders

### General

As of December 31, 2016, Aegon's total authorized share capital consisted of 6,000,000,000 common shares with a par value of EUR 0.12 per share and 3,000,000,000 common shares B with a par value of EUR 0.12 per share. At the same date, there were 2,074,548,842 common shares and 585,022,160 common shares B issued. Of the issued common shares, 47,473,325 common shares and 17,324,960 common shares B were held by Aegon as treasury shares and 1,306,720 treasury shares were held by its subsidiaries.

All of Aegon's common shares and common shares B are fully paid and not subject to calls for additional payments of any kind. All of Aegon's common shares are registered shares. Holders of shares of New York registry hold their common shares in the registered form issued by Aegon's New York transfer agent on Aegon's behalf. Shares of New York registry and shares of Netherlands registry are exchangeable on a one-to-one basis and are entitled to the same rights, except that cash dividends are paid in US dollars on shares of New York registry.

As of December 31, 2016, 286 million common shares were held in the form of New York Registry shares. As of December 31, 2016, there were approximately 17,870 record holders of Aegon's New York Registry shares resident in the United States.

### Vereniging Aegon

Vereniging Aegon is the continuation of the former mutual insurer AGO. In 1978, AGO demutualized and Vereniging AGO became the only shareholder of AGO Holding N.V., which was the holding company for its insurance operations. In 1983, AGO Holding N.V. and Ennia N.V. merged into Aegon N.V. Vereniging AGO initially received approximately 49% of the common shares (reduced gradually to less than 40%) and all of the preferred shares in Aegon N.V., giving it voting majority in Aegon N.V. At that time, Vereniging AGO changed its name to Vereniging Aegon.

The purpose of the Association is a balanced representation of the direct and indirect interests of Aegon N.V. and of companies with which Aegon N.V. forms a group, of insured parties, employees, shareholders and other related parties of these companies. Influences that threaten the continuity, independence or identity of Aegon N.V., in conflict with the aforementioned interests will be resisted as much as possible.

In accordance with the 1983 Amended Merger Agreement, Vereniging Aegon had certain option rights on preferred shares to prevent dilution of voting power as a result of share issuances by Aegon N.V. This enabled Vereniging Aegon to maintain voting control at the General Meeting of Shareholders of Aegon N.V. In September 2002, Aegon N.V. effected a capital restructuring whereby Vereniging Aegon, among others, sold 206,400,000 common shares to Aegon N.V. for the amount of EUR 2,064,000,000; Vereniging Aegon contributed these as additional paid-in capital on the then existing Aegon N.V. preferred shares. As a result of this capital restructuring, Vereniging Aegon's beneficial ownership interest in Aegon N.V.'s common shares decreased from approximately 37% to approximately 12% and its beneficial ownership interest in Aegon N.V.'s voting shares decreased from approximately 52% to approximately 33%.

On May 9, 2003, Aegon's shareholders approved certain changes to Aegon's corporate governance structure. Preferred shares with a nominal value of EUR 0.12 were converted into 211,680,000 new class A preferred shares with a nominal value of EUR 0.25, and class B preferred shares were created with a nominal value of EUR 0.25 each. No class B preferred shares were issued at that time. The voting rights pertaining to the preferred shares were adjusted accordingly to 25/12 vote per preferred share. However, in May 2003, Aegon N.V. and Vereniging Aegon entered into a Preferred Shares Voting Agreement, pursuant to which Vereniging Aegon agreed to exercise one vote only per preferred share, except in the event of a 'Special Cause', as defined below.

In May 2003, Aegon N.V. and Vereniging Aegon amended the option arrangements under the 1983 Amended Merger Agreement so that, in the event of an issuance of shares by Aegon N.V., Vereniging Aegon could purchase as many class B preferred shares as would enable Vereniging Aegon to prevent or correct dilution to below its actual percentage of voting shares, to a maximum of 33%.

On February 15, 2013, Aegon N.V. and Vereniging Aegon entered into an agreement to simplify the capital structure of Aegon and to cancel all of Aegon's preferred shares, of which Vereniging Aegon was the sole owner. The execution of this agreement was subject to the approval of the General Meeting of Shareholders of Aegon N.V. This approval was granted at the Annual General Meeting of Shareholders on May 15, 2013.

The simplified capital structure entailed, but was not limited to, the amendment of the Articles of Association of Aegon N.V., including the conversion of all outstanding 329,773,000 preferred shares A and B, with a nominal value of EUR 0.25 each, into 120,713,389 common shares and 566,313,695 common shares B, with a nominal value of EUR 0.12 each. The financial rights attached to a common share B were determined at 1/40$^{th}$ of the financial rights attached to a common share.

The simplified capital structure also entailed the amendment of the Voting Rights Agreement between Aegon N.V. and Vereniging Aegon, known as the Preferred Shares Voting Agreement before May 2013. As a matter of Dutch corporate law, the shares of both classes offer equal full voting rights, as they have equal nominal values (EUR 0.12). The amended Voting Rights Agreement ensures that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon will no longer be able 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. As Special Cause qualifies the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a Special Cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of one vote per common share B for a limited period of six months.

The simplified capital structure also included an amendment to the 1983 Amended Merger Agreement between Aegon N.V. and Vereniging Aegon. Following this 2013 amendment, Vereniging Aegon's call option relates to common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake at 32.6%, irrespective of the circumstances which cause the total shareholding to be or become lower than 32.6%.

In the years 2003 through 2012, 118,093,000 class B preferred shares were issued under these option rights and in 2013 purchased in aggregate 12,691,745 common shares B under its call option right.

On May 22, 2014, and with effect of May 21, 2014, Vereniging Aegon exercised its options rights to purchase in aggregate 2,320,280 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by Aegon's issuance of shares on May 21, 2014, in connection with the Long Term Incentive Plans for senior management. On January 1, 2015 Vereniging Aegon exercised its options rights to purchase in aggregate 9680 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by Aegon's issuance of shares on January 1, 2015, in connection with the Long Term Incentive Plans for senior management. On May 21, 2015 Vereniging Aegon exercised its options rights to purchase in aggregate 3,686,000 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by Aegon's issuance of shares on May 21, 2015, in connection with the Long Term Incentive Plans for senior management. And on November 13, 2015, and with effect of November 13, 2015, Vereniging Aegon exercised its options rights to purchase in aggregate 760 common shares B at fair value of a common share B (being 1/40th of the market value of a common share in the capital of the Company at the time of issuance) to mitigate dilution caused by a correction to Aegon's issuance of shares on May 21, 2015, in connection with the Long Term Incentive Plans for senior management. On May 19, 2016 Aegon N.V. repurchased 13,450,835 Common Shares from Vereniging Aegon for the amount of EUR 58,000,000, being the Value Weight Average Price of the common shares of the 5 trading days preceding this transaction, as part of the EUR 400 million Share Buy Back program, initiated by Aegon N.V. in January 2016 to neutralize the dilutive effect of the cancellation of Aegon N.V.'s preferred shares in 2013. On June 6, 2016 Aegon N.V. repurchased 17,324,960 Common Shares B from Vereniging Aegon for the amount of EUR 1,968,332, being 1/40th of the Value Weight Average Price of the common shares of the 5 trading days preceding this transaction. The repurchase of common shares B was executed to align the aggregate shareholding of Vereniging Aegon in Aegon N.V. with its special cause voting rights of 32.6%.

### Development of shareholding in Aegon N.V.

| Number of shares | Common | Common B |
|---|---|---|
| At January 1, 2016 | 292,687,444 | 585,022,160 |
| Sale of common shares | (13,450,835) | - |
| Sale of common shares B | - | (17,324,960) |
| **At December 31, 2016** | **279,236,609** | **567,697,200** |

Accordingly, at December 31, 2016, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.4%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase, currently to 32.6%, for up to six months.

At December 31, 2016, the General Meeting of Members of Vereniging Aegon consisted of 17 members. The majority of the voting rights is with the 16 members who are not employees or former employees of Aegon N.V. or one of the Aegon Group companies, nor current or former members of the Supervisory Board or the Executive Board of Aegon N.V. The other member is from the Executive Board of Aegon N.V.

Vereniging Aegon has an Executive Committee consisting of seven members, six of whom are not, nor have ever been, related to Aegon, including the Chairman and the Vice Chairman. The other member is also a member of the Executive Board of Aegon N.V. Resolutions of the Executive Committee, other than regarding the amendment of the Articles of Association of Vereniging Aegon, are made with an absolute majority of the votes. When a vote in the Executive Committee results in a tie, the General Meeting of Members has the deciding vote. Regarding the amendment of the Articles of Association of Vereniging Aegon, a special procedure requires a unanimous proposal from the Executive Committee, thereby including the consent of the representatives of Aegon N.V. at the Executive Committee. This requirement does not apply in the event of a hostile change of control at the General Meeting of Shareholders of Aegon N.V., in which event Vereniging Aegon may amend its Articles of Association without the cooperation of Aegon N.V. Furthermore, the two members of the Executive Board of Aegon N.V., who are also members of the Executive Committee, have no voting rights on several decisions that relate to Aegon N.V., as set out in the Articles of Association of Vereniging Aegon.

### Other major shareholders

In this section below where reference is made to any filings with the Dutch Autoriteit Financiële Markten or the US Securities and Exchange Commission (SEC) the terms 'capital issued' and 'votes' are used as defined in the Wet op het Financieel Toezicht.

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 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.

# Other financial information

## Schedules to the financial statements
## Schedule I
## Summary of investments other than investments in related parties

### As at December 31, 2016

| Amounts in million EUR | Cost[1] | Fair value | Book value |
|---|---|---|---|
| **Shares:** | | | |
| Available-for-sale | 630 | 824 | 824 |
| Fair value through profit or loss | 451 | 490 | 490 |
| **Bonds:** | | | |
| Available-for-sale and held-to-maturity: | | | |
| US government | 11,452 | 11,990 | 11,990 |
| Dutch government | 4,164 | 5,374 | 5,374 |
| Other government | 11,788 | 12,865 | 12,865 |
| Mortgage backed | 10,099 | 10,396 | 10,396 |
| Asset backed | 6,568 | 6,592 | 6,592 |
| Corporate | 50,431 | 53,837 | 53,837 |
| Money market investments | 6,776 | 6,776 | 6,776 |
| Other | 1,019 | 1,206 | 1,206 |
| **Subtotal** | **102,298** | **109,036** | **109,036** |
| **Bonds:** | | | |
| Fair value through profit or loss | 2,137 | 2,115 | 2,115 |
| Other investments at fair value through profit or loss | 2,535 | 2,536 | 2,536 |
| Mortgages | 34,206 | 38,499 | 34,206 |
| Private loans | 3,166 | 3,569 | 3,166 |
| Deposits with financial institutions | 129 | 129 | 129 |
| Policy loans | 2,207 | 2,207 | 2,207 |
| Other | 104 | 104 | 104 |
| **Subtotal** | **39,812** | **44,508** | **39,812** |
| **Real estate:** | | | |
| Investments in real estate | | 1,999 | 1,999 |
| **Total** | | **161,508** | **156,813** |

[1] Cost is defined as original cost for available-for-sale shares and amortized cost for available-for-sale and held-to-maturity bonds.

## Schedule II
## Condensed financial information of registrant

# Statement of financial position of Aegon N.V.

As at December 31

| Before profit appropriation, amounts in EUR million | 2016 | 2015 |
|---|---|---|
| **Investments** | | |
| Shares in group companies | 22,612 | 24,236 |
| Loans to group companies | 4,123 | 4,529 |
| | **26,735** | **28,765** |
| **Receivables** | | |
| Receivables from group companies | 80 | 591 |
| Other receivables | 219 | 63 |
| | **299** | **654** |
| **Other assets** | | |
| Cash and cash equivalents | 879 | 309 |
| Other | 140 | 111 |
| | **1,019** | **420** |
| **Prepayments and accrued income** | | |
| Accrued interest and rent | 15 | 20 |
| **Total assets** | **28,068** | **29,860** |
| **Shareholders' equity** | | |
| Share capital | 319 | 328 |
| Paid-in surplus | 7,873 | 8,059 |
| Revaluation account | 5,450 | 6,551 |
| Remeasurement of defined benefit plan of group companies | (1,820) | (1,532) |
| Legal reserves – foreign currency translation reserve | 1,316 | 1,264 |
| Legal reserves in respect of group companies | 1,169 | 1,048 |
| Retained earnings, including treasury shares | 6,020 | 7,490 |
| Net income / (loss) | 586 | (524) |
| | **20,913** | **22,684** |
| Other equity instruments | 3,797 | 3,800 |
| **Total equity** | **24,710** | **26,485** |
| **Subordinated borrowings** | **767** | 759 |
| **Long-term borrowings** | **1,832** | 1,458 |
| **Other liabilities** | | |
| Short term deposits | 128 | 125 |
| Loans from group companies | 62 | 360 |
| Payables to group companies | 140 | 337 |
| Deferred tax liability | 159 | 142 |
| Other | 242 | 165 |
| | **731** | **1,129** |
| **Accruals and deferred income** | **29** | 29 |
| **Total equity and liabilities** | **28,068** | **29,860** |

# Income statement of Aegon N.V.

For the year ended December 31

| Amounts in EUR million | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income/(loss) group companies | 682 | (485) | 1,217 |
| Other income/(loss) | (96) | (38) | (22) |
| **Net income/(loss)** | **586** | **(524)** | **1,195** |

# Condensed cash flow statement of Aegon N.V.

For the year ended December 31

| Amounts in EUR million | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Income / (loss) before tax** | **561** | **(546)** | **1,189** |
| Adjustments | (381) | 2,012 | 242 |
| **Net cash flows from operating activities** | **180** | **1,466** | **1,431** |
| **Net cash flows from investing activities** | **893** | **(5)** | **-** |
| Issuance and repurchase of share capital | (623) | (213) | (199) |
| Dividends paid | (306) | (292) | (266) |
| Issuance, repurchase and coupons of perpetual securities | (140) | (148) | (1,344) |
| Issuance, repurchase and coupons of non-cumulative subordinated notes | (38) | (38) | (32) |
| Issuance and repurchase of borrowings | 604 | (1,115) | 438 |
| **Net cash flows from financing activities** | **(503)** | **(1,806)** | **(1,402)** |
| **Net increase / (decrease) in cash and cash equivalents** | **570** | **(346)** | **29** |

# 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.

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.

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

## Schedule III
## Supplementary insurance information

| Column A | Column B | Column C | Column D | Column E | Column F |
|---|---|---|---|---|---|
| **Segment**<br>Amounts in million EUR | Deferred policy acquisition costs | Future policy benefits | Unearned premiums | Other policy claims and benefits | Premium revenue |
| **2016** | | | | | |
| Americas | 8,958 | 185,654 | 5,625 | 2,151 | 9,433 |
| The Netherlands | 84 | 63,526 | 59 | 977 | 2,491 |
| United Kingdom | 996 | 69,505 | 11 | 6 | 9,924 |
| Central & Eastern Europe | 71 | 1,905 | 18 | 75 | 578 |
| Spain & Portugal | 1 | 799 | - | 12 | 148 |
| Asia | 832 | 5,558 | 105 | 22 | 882 |
| Holding and other activities | - | 16 | 4 | - | (2) |
| **Total** | **10,942** | **326,964** | **5,822** | **3,244** | **23,453** |
| **2015** | | | | | |
| Americas | 8,330 | 177,742 | 4,977 | 1,991 | 9,195 |
| The Netherlands | 97 | 59,779 | 108 | 1,316 | 2,947 |
| United Kingdom | 1,264 | 83,417 | 12 | 5 | 8,512 |
| Central & Eastern Europe | 84 | 1,890 | 15 | 70 | 642 |
| Spain & Portugal | 1 | 797 | - | 10 | 133 |
| Asia | 745 | 4,127 | 88 | 20 | 1,494 |
| Holding and other activities | 9 | 89 | 2 | 1 | 2 |
| **Total** | **10,530** | **327,841** | **5,202** | **3,414** | **22,925** |
| **2014** | | | | | |
| Americas | 6,465 | 160,231 | 4,365 | 1,649 | 8,222 |
| The Netherlands | 114 | 61,458 | 117 | 1,275 | 4,716 |
| United Kingdom | 2,417 | 81,374 | 9 | 4 | 5,113 |
| Central & Eastern Europe | 113 | 2,084 | 13 | 75 | 678 |
| Spain & Portugal | 2 | 757 | - | 5 | 144 |
| Asia | 493 | 2,461 | 67 | 21 | 991 |
| Holding and other activities | 5 | 4 | - | 1 | - |
| **Total** | **9,610** | **308,369** | **4,572** | **3,029** | **19,864** |

The numbers included in Schedule III are based on IFRS-EU and excludes the proportionate share in Aegon's joint ventures and Aegon's associates.

Deferred policy acquisition costs also include deferred costs of reinsurance.

| Amounts in million EUR | Column G<br>Net investment income | Column H<br>Benefits, claims and losses | Column I<br>Amortization of deferred policy acquisition costs | Column J<br>Other operating expenses | Column K<br>Premiums written |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Americas | 3,711 | 8,913 | 576 | 3,438 | 6,824 |
| The Netherlands | 2,133 | 3,726 | 24 | 967 | 2,477 |
| United Kingdom | 1,661 | 12,618 | 148 | 518 | 9,331 |
| Central & Eastern Europe | 45 | 395 | 59 | 185 | 568 |
| Spain & Portugal | 36 | 143 | - | 90 | 143 |
| Asia | 196 | 130 | 31 | 111 | 927 |
| Asset Management | - | - | - | 138 | - |
| Holding and other activities | 6 | 3 | - | 66 | 7 |
| **Total** | **7,788** | **25,929** | **837** | **5,513** | **20,277** |
| **2015** | | | | | |
| Americas | 3,672 | 8,240 | 593 | 3,357 | 6,643 |
| The Netherlands | 2,274 | 4,641 | 30 | 1,039 | 2,934 |
| United Kingdom | 2,331 | 11,541 | 319 | 588 | 8,038 |
| Central & Eastern Europe | 45 | 563 | 80 | 184 | 631 |
| Spain & Portugal | 34 | 151 | - | 74 | 128 |
| Asia | 165 | 119 | 30 | 128 | 1,564 |
| Asset Management | - | - | - | 117 | - |
| Holding and other activities | 4 | 2 | 3 | 57 | 7 |
| **Total** | **8,525** | **25,259** | **1,055** | **5,543** | **19,946** |
| **2014** | | | | | |
| Americas | 3,309 | 5,954 | 448 | 2,790 | 5,614 |
| The Netherlands | 2,568 | 3,853 | 37 | 956 | 4,699 |
| United Kingdom | 2,077 | 7,064 | 193 | 628 | 4,686 |
| Central & Eastern Europe | 54 | 467 | 77 | 180 | 667 |
| Spain & Portugal | 36 | 161 | - | 65 | 142 |
| Asia | 101 | 81 | 9 | 100 | 1,044 |
| Asset Management | - | - | - | 89 | - |
| Holding and other activities | 4 | - | 2 | 54 | 2 |
| **Total** | **8,148** | **17,579** | **766** | **4,862** | **16,853** |

## Schedule IV
## Reinsurance

| Amounts in million EUR | Gross amount | Ceded to other companies | Assumed from other companies | Net amount | % of amount assumed to net |
|---|---|---|---|---|---|
| **For the year ended December 31, 2016** | | | | | |
| Life insurance in force | 986,854 | 851,003 | 648,147 | 783,999 | 83% |
| **Premiums** | | | | | |
| Life insurance | 18,687 | 2,932 | 1,713 | 17,468 | 10% |
| Non-life insurance | 3,046 | 244 | 7 | 2,808 | 0% |
| **Total premiums** | **21,734** | **3,176** | **1,719** | **20,277** | **8%** |
| **For the year ended December 31, 2015** | | | | | |
| Life insurance in force | 1,008,787 | 961,485 | 658,594 | 705,896 | 93% |
| **Premiums** | | | | | |
| Life insurance | 17,971 | 2,694 | 1,612 | 16,889 | 10% |
| Non-life insurance | 3,332 | 286 | 11 | 3,057 | 0% |
| **Total premiums** | **21,302** | **2,979** | **1,623** | **19,946** | **8%** |
| **For the year ended December 31, 2014** | | | | | |
| Life insurance in force | 882,862 | 909,110 | 626,387 | 600,139 | 104% |
| **Premiums** | | | | | |
| Life insurance | 15,464 | 2,701 | 1,432 | 14,195 | 10% |
| Non-life insurance | 2,965 | 310 | 4 | 2,658 | 0% |
| **Total premiums** | **18,429** | **3,011** | **1,436** | **16,853** | **9%** |

## Schedule V
## Valuation and qualifying accounts

| Amounts in million EUR | **2016** | 2015 | 2014 |
|---|---|---|---|
| Balance at January 1 | 249 | 363 | 352 |
| Addition charged to earnings | 5 | 30 | 62 |
| Amounts written off and other changes | (40) | (152) | (51) |
| Currency translation | 1 | 8 | - |
| **Balance at December 31** | **215** | **249** | **363** |
| | | | |
| The provisions can be analyzed as follows: | | | |
| Mortgages | 40 | 56 | 169 |
| Other loans | 97 | 86 | 80 |
| Receivables | 79 | 107 | 115 |
| **Total** | **215** | **249** | **363** |

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## Additional information


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## Compliance with regulations

### Iran Threat Reduction and Syria Human Rights Act

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ('ITRA'), which was signed into law on August,10 2012, added a new subsection (r) to Section 13 of the Securities Exchange Act of 1934, as amended, which requires Aegon to disclose whether Aegon N.V. or any of its affiliates has engaged during the calendar year in certain Iran-related activities, including any transaction or dealing with the Government of Iran that is not conducted pursuant to a specific authorization of the U.S. government.

The non-U.S. based subsidiaries of Aegon N.V. operate in compliance with applicable laws and regulations of the various jurisdictions where they operate, including applicable international laws and regulations.

Aegon maintained a limited number of individual personal pensions which were in-force during 2016 where the payer / beneficiary of the pension benefit is a party subject to relevant U.S. sanctions.

Aegon UK has a UK resident customer for whom one active Individual Personal Pension is held. The customer is a UK-based employee of an Iranian bank which appears on OFAC's Specially Designated Nationals and Blocked Persons List with the identifiers of [SDGT], [IRAN], and [IFSR], and the Iranian bank makes contributions to the customer's pension. The customer is not a Specially Designated National (SDN) and the Iranian bank does not own, benefit from, or have control over, the pension. All payments from the Iranian bank have been made in UK Pounds from a UK bank account. Her Majesty's Treasury (HMT) have confirmed that this business activity falls within an acceptable exemption. Consequently, the pension remains active although the relationship is under close ongoing review. The monthly premium received during 2016 was GBP 796.39. Ten single additional premiums totalling GBP 5,351.39 were received between January and April 2016. At January 23 2017, the account value was GBP 4,3987.13. The related annual net profit arising from this contract, which is difficult to calculate with precision, is estimated to be no greater than GBP 4,398.71.

Aegon UK also has six UK resident customers, each of whom has one active Individual Personal Pension with the same employer. The customers are UK-based employees of a British registered charity that appears on the SDN List with the identifier [SDGT], and the charity makes contributions to the pensions. The customers are not SDNs and the charity does not own, benefit from, or have control over, the pensions. All payments from the charity have been paid in UK Pounds from a UK bank account. The pensions are managed in line with applicable legislation and regulation in the UK and the charity is not subject to sanctions in the UK or EU. Consequently, the pensions remain active although the relationships are under close ongoing review. Individual Personal Pension #1 has a current value of GBP 7,820.61 as at January 23, 2017, and regular monthly contributions of GBP 69.41 are being received into this policy. Individual Personal Pension #2 has a current value of GBP 3,563.97as at January 23, 2017, and regular monthly contributions of GBP 18.61 (gross) are being received into this policy. Individual Personal Pension #3 has a current value of GBP 168,152.37as at January 23, 2017, and regular monthly contributions of GBP 527.91 (gross) are being received into this policy. Individual Personal Pension #4 has a current value of GBP 7,753.44 as at January 23 2017, and no further contributions are being received into this policy. Individual Personal Pension #5 has a current value of GBP 38,662.67as at January 23, 2017, and no further contributions are being received into this policy. Individual Personal Pension #6 has a current value of GBP 7,312.46 as at January 23, 2017, and no further contributions are being received into this policy. The related annual net profit arising from these six contracts, which is difficult to calculate with precision, is estimated to be no greater than GBP 23,326.55.

Aegon Levensverzekering N.V. maintained a limited number of individual personal pensions and individual life investment linked insurance policies which were in-force during 2016 where the beneficiary of the pension policy and the beneficiary/payer of the individual life investment linked insurance policy is a party subject to relevant U.S. sanctions.

Aegon Levensverzekering N.V. has one Dutch resident customer for whom two active individual personal pension policies and one individual life investment linked insurance policy are held. This person is on the Foreign Sanctions Evaders List ('FSE List') with Regard to Syria and is also listed on the Specially Designated Nationals and Blocked Persons List. The FSE List includes persons sanctioned pursuant to E.O. 13608 for engaging in conduct relating to the evasion of U.S. economic and financial sanctions with respect to Iran or Syria, which are identified, respectively, with the program tags [FSE-IR] and [FSE-SY].

The individual personal pension policies #1 and #2 are lifelong annuity plans which start at the retirement age of 65 (January 2023) The annual pensions benefits as of January 1st, 2023 for policy #1 will be EUR 560.64 gross per year and for #2 EUR 34.11 gross per year. The contributions into these policies ended in the 1980's. The related annual net profit arising from these two contracts is negligible.

The individual life investment linked insurance policy has a current value of EUR 59,981 as at January 1st, 2017, and regular monthly contributions of EUR 198.60 are being received into this policy. All contributions have been paid in Euros from a Dutch bank account. The policy is managed in line with applicable legislation and regulation in the Netherlands and the individual is not subject to sanctions in the Netherlands or EU. The end date of this policy is February 1, 2023. The related annual net profit arising from this contract, which is difficult to calculate with precision, is estimated to be EUR 500 per year.

## Risk factors

Aegon faces a number of risks, some of which may arise from internal factors, such as inadequate compliance systems and operational change management. Others, may arise from external factors, such as developments in financial markets, the business and/or political environment, economic trends, politics and regulations. These risks, whether internal or external, may affect the Company's operations, its earnings, the value of its investments, or the sale of certain products and services. The market price of Aegon securities could decline due to any of the risks described in this section and investors could lose (part of) their investments. Additional risks of which Aegon is not presently aware could also affect its operations and share price. The business of a multinational insurance company such as Aegon is inherently exposed to risks that may only become apparent with the benefit of hindsight. The next two sections provide a description of risk factors relating to Aegon's businesses and Aegon's securities, including its common shares. The order in which the risk factors are presented is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

### I - Risks relating to Aegon's businesses

The following covers key risk factors that may affect Aegon's businesses and operations, as well as other risk factors that are particularly relevant to Aegon in periods of significant economic uncertainty. Additional risks to which Aegon is subject include, but are not limited to, the factors mentioned under 'Forward-looking statements', and the risks of Aegon's businesses described elsewhere in this Annual Report.

#### Risks related to the global financial markets and general economic conditions

**Disruptions in the global financial markets and general economic conditions may affect, and could have materially adverse effects on Aegon's businesses, results of operations, cash flows and financial condition.**

Aegon's results of operations and financial condition may be materially affected from time to time by general economic conditions, such as levels of employment, consumer lending or inflation in the countries in which Aegon operates. Global financial markets have experienced extreme and unprecedented volatility and disruption over the last decade.

Such conditions may result in reduced demand for Aegon's products as well as impairments and reductions in the value of the assets in Aegon's general account, separate account, and company pension schemes, among other assets. Aegon may also experience a higher incidence of claims and unexpected policyholder behavior such as unfavorable changes in lapse rates. Aegon's policyholders may choose to defer or stop paying insurance premiums, which may impact Aegon's businesses, results of operations, cash flows and financial condition, and Aegon cannot predict definitively whether or when such actions may occur.

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

#### Credit risk

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

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

Additionally, Aegon is indirectly exposed to credit risk on the investment portfolios underlying separate account liabilities. Changes to credit risk can result in separate account losses, which increase the probability of future loss events. In the United States and the Netherlands separate account products can include guarantees which protect policyholders against some or all of the downside risks in their separate account portfolio. Reduced separate account values also decrease fee income and may accelerate DPAC amortization. Reconsideration of assumptions might also affect the DPAC amortization schedule. These factors may have a material adverse effect on Aegon's results of operations and financial position.

Aegon's investment portfolio contains, among other investments, Dutch government bonds, US Treasury, agency and state bonds, as well as other government issued securities. Especially in a weak economic environment Aegon may incur significant investment impairments due to defaults and overall declines in the capital markets. Further excessive defaults or other reductions in the value of these securities and loans may have a materially adverse effect on Aegon's businesses, results of operations, cash flows and financial condition.

### Equity market risk

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

Aegon and its customers run the risk that the market value of its equity investments declines. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where Aegon bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in policyholders' accounts for insurance and investment contracts (such as variable annuities, unit-linked products and mutual funds) where funds are invested in equities. Although most of the risk remains with the policyholder, guarantees within certain products may transfer some or all of this risk to Aegon. Lower investment returns also reduce the asset management fee that Aegon earns on the asset balance in these products and prolonged investment under-performance may cause existing customers to withdraw funds and potential customers not to grant investment mandates. Hedging of exposures may change those effects significantly and equity hedges are used extensively to manage the equity market risk of variable annuity investment guarantees. Hedging programs are in place that are designed to manage the risks within the limits as defined as part of the financial risk management policies within Aegon group's risk strategy. The actual impact of the hedging programs is dependent on the real time market movements of equity markets.

Some of Aegon's insurance and investment contract businesses have minimum return or accumulation guarantees, which require Aegon to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Aegon's reported results under International Financial Reporting Standards (IFRS-EU), as adopted by the European Union, are also at risk if returns are not sufficient to allow amortization of DPAC, which may impact the reported net income as well as shareholders' equity. Volatile or poor market conditions may also significantly reduce the demand for some of Aegon's savings and investment products, which may lead to lower sales and net income. Deteriorating general economic conditions may again result in significant decreases in the value of Aegon's equity investments.

### Interest rate risk

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

Aegon is exposed to interest rate risk 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. In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments by Aegon requiring the sale of invested assets at a time when the prices of those assets are affected adversely by the increase in market interest rates. This may result in realized investment losses. These cash payments to policyholders also result in a decrease in total invested assets and net income. Early withdrawals may also require accelerated amortization of DPAC, which in turn reduces net income. Hedging against interest rate movements may change these effects significantly. Hedging programs are in place that are designed to manage the risks within the limits as defined as part of the financial risk management policies within Aegon group's risk strategy. The actual impact of the hedging programs is dependent on the effectiveness of the design of those programs as well as real time movements of financial markets. If hedging programs are not effective, Aegon's results of operation, cash flow and financial position could be materially and adversely affected.

During periods of sustained low interest rates, as experienced in recent years, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided in policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. A prolonged low interest rate environment may also result in a lengthening of maturities of the policyholder liabilities from initial estimates, primarily due to lower policy lapses.

In-force life insurance and annuity policies may be relatively more attractive to consumers due to built-in minimum interest rate guarantees, resulting in increased premium payments on products with flexible premium features and a higher percentage of insurance policies remaining in force year-to-year. The majority of assets backing the insurance liabilities are invested in fixed-income securities.

Aegon manages its investments and derivative portfolio, considering a variety of factors, including the relationship between the expected duration of its assets and liabilities. However, if interest rates remain at current levels or decline further, the yield earned upon reinvesting interest payments from current investments, or from their sale or maturation, may decline. Reinvestment at lower yields may reduce the spread between interest earned on investments and interest credited to some of Aegon's products and accordingly net income may decline. In addition, borrowers may prepay or redeem fixed maturity investments or mortgage loans in Aegon's investment portfolio in order to borrow at lower rates. Aegon can lower crediting rates on certain products to offset the decrease in spread. However, its ability to lower these rates may be limited by contractually guaranteed minimum rates or competition.

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

Base interest rates set by central banks and government treasuries remain at or near the historically low or even negative levels, despite increases in market rates in the US later in 2016. Depending on economic developments going forward, interest rates at the shorter end of the curve may remain at low or even negative levels for a prolonged period. In such an environment, an anchored expectation of low inflation or deflation could also further push down the longer end of the interest rate curve which could have significant implications for Aegon's operations and financial results.

The profitability of Aegon's spread-based businesses depends in large part upon the ability to manage interest rate risk, credit spread risk and other risks inherent in the investment portfolio. Aegon may not be able to successfully manage interest rate risk, credit spread risk and other risks in the investment portfolio or the potential negative impact of those risks.

The sensitivity of Aegon's net income and shareholders' equity to a change in interest rates is provided in the notes to the consolidated statements, note 4 Financial risks, section 'Interest rate risk'.

### Currency exchange rate risk

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

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

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

The sensitivity of Aegon's net income and shareholders' equity to foreign exchange translation risk is provided in the notes to the financial statements, note 4 Financial risks, section 'Currency exchange risks'.

### Liquidity risk

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

Aegon must maintain sufficient liquidity to meet short term cash demand under normal circumstances, as well as in crisis situations. Liquidity risk is inherent in much of Aegon's businesses. Each asset purchased and liability sold has unique liquidity characteristics. Some liabilities can be surrendered, while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, are to some degree illiquid. Aegon continued to maintain its reserves of cash and liquid assets in 2016. In depressed markets, Aegon may be unable to sell or buy significant volumes of assets at quoted prices.

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

Aegon makes use of (syndicated) credit facilities to support repayment of amounts outstanding under Aegon's commercial paper programs and to serve as additional sources of liquidity. An inability to access these credit facilities, for example due to non-compliance with conditions for borrowing or the default of a facility provider under stressed market circumstances, could have an adverse effect on Aegon's ability to meet liquidity needs and to comply with contractual and other requirements.

Many of Aegon's derivatives transactions require Aegon to pledge collateral against declines in the fair value of these contracts. Volatile financial markets may significantly increase requirements to pledge collateral and adversely affect our liquidity position. Further, a downgrade of Aegon's credit ratings may also result in additional collateral requirements and affect our liquidity, or even enable counterparties to terminate such derivative transactions.

### Underwriting risk

**Underwriting risk relates to the products sold by Aegon insurance entities. The underwriting process requires, among others, the setting of assumptions. Aegon's reported results of operations and financial condition may be affected by differences between actual claims experience and underwriting and reserve assumptions both due to incurred gains/ losses and from potential changes in best estimate assumptions that are used to value insurance liabilities.**

There is a risk that the pricing of our products turns out to be inadequate if the assumptions used for pricing do not materialize. Aegon's earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used in setting the prices for Aegon's products and establishing the technical provisions for insurance liabilities. If actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, Aegon's income would be reduced. Furthermore, if less favorable claims experience became sustained, Aegon may be required to change its best estimate assumptions with respect to future experience, potentially increasing liabilities, which may reduce Aegon's income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs may be accelerated and may require write-offs should there be an expectation of unrecoverability. This may have a materially adverse effect on Aegon's results of operations and financial condition.

Sources of underwriting risk include policyholder behavior (such as lapses or surrender of policies), policy claims (such as mortality and morbidity) and expenses. For some product lines, Aegon is at risk if policy lapses increase, as sometimes Aegon is unable to fully recover up-front sales expenses despite the presence of commission recoveries or surrender charges and fees. In addition, some policies have embedded options which at times are more valuable to the client if they stay (lower lapses) or leave (higher lapses), which may result in losses to Aegon's businesses. Aegon sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance. Aegon also sells certain other types of policies, such as annuity products, that are at risk if mortality decreases (longevity risk). For example, certain current annuity products, as well as products sold in previous years, have seen their profitability deteriorate as longevity assumptions have been revised upward. If the trend toward increased longevity persists, Aegon's annuity products may continue to experience adverse effects due to longer expected benefit payment periods. Aegon is also at risk if expenses are higher than assumed.

The sensitivity of Aegon's net income and shareholders' equity to changes in various underwriting risks is provided in the notes to the consolidated financial statements, note 36 Insurance contracts.

### Other risks

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

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

certain investments and other assets is subjective and based on assumptions, estimations and judgments that may not reflect or correspond to our actual experience any of which may materially impact Aegon's results of operations or financial position.

Among other things, changes in assumptions, estimation or judgments or in actual experience may require Aegon to accelerate the amortization of DPAC and value of business acquired, establish a valuation allowance against deferred income tax assets, or to recognize impairment of other assets, any of which may materially adversely affect Aegon's results and financial condition.

**Certain of our products have guarantees that may adversely affect our results, financial condition or liquidity.**

Certain products, particularly our variable annuity products, include death benefit guarantees, guarantees of minimum surrender values or income streams for stated periods or for life, which may be in excess of account values. These guarantees are designed, among other things, to protect policyholders against downturns in equity markets and interest rates. As a result, a drop in equity markets, an increase in equity volatility, or lower interest rates could result in an increase in the valuation of Aegon's liabilities associated with these products. An increase in these liabilities may decrease our net income. Aegon uses a variety of hedging and risk management strategies to mitigate these risks. However, these strategies may not be fully effective and hedging instruments may not fully offset the costs of guarantees or may otherwise be insufficient in relation to our obligations. Estimates and assumptions Aegon makes in connection with hedging activities may fail to fully reflect or correspond to the actual (longer term) exposure in respect of guarantees. Further, unexpected policyholder behavior may cause our hedging to be less effective. The above factors could have a material adverse effect on our results of operations, financial condition or liquidity.

**Aegon may be unable to manage Aegon's risks successfully through derivatives.**

Aegon is exposed to changes in the fair value of Aegon's investments, the impact of interest rate, equity markets and credit spread changes, currency fluctuations and changes in mortality and longevity. Aegon uses common financial derivative instruments, such as swaps, options, futures and forward contracts to hedge some of the exposures related to both investments backing insurance products and company borrowings. This is a more pronounced risk to Aegon in view of the stresses suffered by financial institutions and the volatility of interest rate, credit and equity markets. Aegon may not be able to manage the risks associated with these activities successfully through the use of derivatives. In addition, a counterparty may fail to honor the terms of its derivatives contracts with Aegon. Aegon's inability to manage risks successfully through derivatives, a counterparty's failure to honor Aegon's obligations or the systemic risk that failure is transmitted from counterparty to counterparty may each have a material adverse effect on Aegon's businesses, results of operations and financial condition.

Aegon's ability to manage risks through derivatives may be negatively affected by the Dodd-Frank Act and legislative initiatives of the European Commission (EMIR and MIFIR), which provide for regulation of OTC derivatives markets. These regulations include mandatory trading of certain types of OTC derivative transactions on regulated trading venues and mandatory clearing of certain types of transactions through a central clearing organization. These regulations may limit Aegon's ability to customize derivative transactions for its needs. Aegon may experience additional collateral requirements and costs associated with derivative transactions through these or other regulatory or taxation changes.

**Inaccuracies in econometric, financial or actuarial models, or differing interpretations of underlying methodologies, assumptions and estimates, could have a significant adverse effect on Aegon's business, results of operations and financial condition.**

Aegon uses econometric, financial and actuarial models to measure and manage multiple types of risk, to price products and to establish and assess key valuations and report financial results. All these functions are critical to Aegon's operations. If these models, their underlying methodologies, assumptions and estimates, or their implementation and monitoring prove to be inaccurate, this could have a significant adverse effect on Aegon's business, financial condition and results.

**Aegon may be required to increase its statutory reserves and/or hold higher amounts of statutory capital, which may decrease Aegon's returns on its products.**

There may be increased regulatory requirements, resulting in more stringent supervision of insurers at the group or statutory company level by regulatory authorities in the jurisdictions in which Aegon's subsidiaries are domiciled and operate. Aegon cannot predict specific proposals that might be adopted, or what impact, if any, such proposals or, if enacted, such laws, may have on its businesses, results of operations, or financial condition.The European Union (which has already adopted Solvency II), the National Association of Insurance Commissioners' (NAIC) in the US or US state regulators may adopt revisions to applicable risk based capital formulas, local regulators in

other jurisdictions in which Aegon's subsidiaries operate may increase their capital requirements, or rating agencies may incorporate higher capital thresholds into their quantitative analyses, thus requiring additional capital for Aegon's insurance subsidiaries.

An important example of increased regulatory requirements for insurers originates from the European Commission's Solvency II Directive, which became effective on January 1, 2016, and which imposes, among other things, substantially greater quantitative and qualitative capital requirements on some of Aegon's businesses and at the Group level, as well as supervisory and disclosure requirements, and may impact the structure, business strategies, and profitability of Aegon's insurance subsidiaries and of the Group. Some of Aegon's competitors, who are headquartered outside the European economic area may not be subject to Solvency II requirements and may thereby be better able to compete against Aegon, particularly in Aegon's businesses in the United States and Asia. In particular, the manner in which Aegon's United States and Asia insurance businesses are taken into account in the Solvency II group solvency calculation, may have a significant impact on the group's capital position. In that context, the opinion published by EIOPA on January 27, 2016 regarding the application of a combination of accounting methods for the group solvency calculation has offered important additional guidance to Aegon that may help to determine its group solvency position under Solvency II. As is generally the case with respect to the interpretation of regulatory requirements, in the future this guidance may change, which may have, depending on the nature of the change, a significant effect on the outcome of the group solvency calculation.

In the United States, the National Association of Insurance Commissioners (NAIC) has taken an initiative to better align the Risk-Based Capital charges with the appropriate risk for invested assets. This may lead to higher risk charges for such assets.

Furthermore, the NAIC Model Regulation entitled 'Valuation of Life Insurance Policies,' commonly known as Regulation XXX, requires insurers in the United States to establish additional statutory reserves for term life insurance policies with long-term premium guarantees. In addition, Actuarial Guideline XXXVIII, commonly known as AG38, intended to clarify the regulation on valuation of life insurance policies, requires insurers to establish additional statutory reserves for certain universal life insurance policies with secondary guarantees. Virtually all of Aegon's newly issued term and universal life insurance products in the United States are affected by Regulation XXX and AG38, respectively.

Subsequently, the NAIC adopted regulations to monitor and provide transparency for insurer-affiliated captive reinsurers. Captive reinsurance structures have been used to manage 'economically redundant' reserves for term and secondary guarantee universal life policies. It is anticipated that after the enactment of US principle-based reserves, effective January 1, 2017 for new business, new captive reinsurance structures may not be required for these term and secondary guarantee universal life products. The new reserves requirements for US life insurance products are intended by regulators to represent a more economically supported view of the resources required to honor the promises to policyholders. For existing business held in a captive Aegon may continue to be subject to the risks of adverse publicity and changes in regulations related to captive reinsurance.

In addition, the NAIC is reviewing the use of captives for variable annuity business and is considering actuarial and accounting changes for variable annuities. Aegon utilizes variable annuity captives to align its hedging strategy with capital requirements for a closed block of variable annuities. The NAIC also continues to consider changes to corporate governance and insurers' use of captives.

Aegon utilizes affiliated captive insurance companies to manage risks of various insurance policies, including universal life with secondary guarantees, level term life insurance and variable annuity policies. Through these structures, Aegon finances certain required regulatory reserves at a lower cost. To the extent that state insurance departments restrict Aegon's use of captives and regulatory reserve requirements remain unchanged this could increase costs, limit the ability to write these products in the future or lead to increased prices to consumers on those products. The NAIC continues to consider changes to corporate governance and insurers' use of captives. Due to the uncertainty of the proposals it is not possible to provide an estimate of the effects at this time.

As a further example, Aegon and the Aegon Group may be impacted by further changes to the capital adequacy requirements it is subject to as a result of the development of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which is a set of international regulatory standards focusing on the effective group-wide supervision of internationally active insurance groups, and particular requirements or standards that may be imposed on global systemically important insurers (G-SIIs) in the future. As of November 3, 2015 Aegon is classified as a G-SII. This qualification is reviewed by the Financial Stability Board yearly. If Aegon remains a G-SII, it may be required as per January 2019, to maintain additional capital in the form of Higher Loss Absorbing Capacity (HLA), in addition to a Basic Capital Requirement (BCR), which is currently under development at international level by the International Association of Insurance Supervisors (IAIS). Only after the calibration of the BCR and HLA has been completed, it will be certain whether or not these requirements will result in more binding capital constraints than existing requirements, including Solvency II. In this respect, the development of ComFrame as well as the requirements or standards applicable to G-SIIs could lead to enhanced capital requirements applicable to internationally active insurance groups and/or G-SIIs that may require us to constrain our

ability to pay dividends, repurchase own shares or engage in other transactions that affect capital and/or could adversely affect the ability to compete with other insurers that are not subject to those capital requirements. Furthermore, such requirements may constrain Aegon's ability to provide guarantees, may increase the cost to Aegon of offering certain products, which could require Aegon to raise prices on those products, reduce the amount of risk Aegon takes on or stop offering certain products. Furthermore, Aegon may consider structural and other business alternatives in light of its G-SII designation, of which the impact on shareholders cannot be predicted.

**Regulatory restrictions and failure to comply with regulations may impact Aegon's ability to do business, its financial position or financial results**.

Aegon may not be able to comply fully with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance companies, holding companies, groups of insurance companies and/or other financial undertakings and/or financial conglomerates. Failure to comply with or to obtain appropriate exemptions under any applicable laws may result in restrictions on Aegon's ability to do business in one or more of the jurisdictions in which Aegon operates and may result in fines and other sanctions, which may have a materially adverse effect on Aegon's businesses, financial position or results of operations.

Some countries impose restrictions on particular underwriting criteria, such as gender, or use of genetic test results, for determination of premiums and benefits of insurance products. To date, Aegon has not observed negative financial or business impact due to these restrictions. However, future restrictions could adversely impact Aegon's operations or financial results. Further developments in underwriting, such as automation and use of additional data, may also be affected by future regulatory developments regarding privacy and use of personal data.

**A downgrade in Aegon's ratings may increase policy surrenders and withdrawals, adversely affect relationships with distributors, and negatively affect Aegon's results.**

Claims-paying ability and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade (or a change in outlook indicating the potential for such a downgrade) of Aegon or any of its rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. These withdrawals may require the sale of invested assets, including illiquid assets, at a price that may result in realized investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause Aegon to accelerate amortization of deferred policy acquisition costs (DPAC), reducing net income.

Aegon has experienced downgrades and negative changes to its outlook in the recent past, and may experience rating and outlook changes in the future. For example, in April 2016 Moody's placed Aegon N.V.'s holding company rating on negative outlook and in August 2016, Fitch downgraded Aegon N.V.'s holding company and operating company ratings (Aegon Bank N.V. was affirmed) and changed the outlook from negative to stable. In February 2017, S&P Global affirmed Aegon N.V.'s holding company and operating company ratings, while revising the outlook from stable to negative. A downgrade or potential downgrade, including changes in outlook, may result in higher funding costs and/or affect the availability of funding in the capital markets. In addition, a downgrade may adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of Aegon's products and services, which may negatively impact new sales and adversely affect Aegon's ability to compete. A downgrade of Aegon's credit ratings may also further affect our liquidity position through increased collateral requirements for our hedging and derivative transactions, and may affect our ability to obtain reinsurance contracts at reasonable prices or at all. This would have a materially adverse effect on Aegon's businesses, results of operations and financial condition.

Aegon cannot predict what actions rating agencies may take, or what actions Aegon may take in response to the actions of rating agencies. As with other companies in the financial services industry, Aegon's ratings may be downgraded at any time and without notice by any rating agency.

**Changes in government regulations in the countries in which Aegon operates may affect profitability.**

Aegon's regulated businesses, such as insurance, banking and asset management, are subject to comprehensive regulation and supervision, specific to these businesses. The primary purpose of such regulation is to protect clients of these operating companies, (e.g. policyholders), not holders of Aegon capital securities. Changes in existing laws and regulations may affect the way in which Aegon conducts its businesses, profitability of its businesses and the products offered. Additionally, the laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than currently the case, such as with regard to the calculation of capital needs, treatment of own funds, rules or guidance with respect to the modelling of insurance, investment and other risks.

For example, in July 2010, the US Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which provides for comprehensive changes to the regulation of financial services in the United States by granting existing and newly-created government agencies and bodies (for example the Federal Reserve Board, Commodity Futures Trading Commission, Securities and Exchange Commission and the newly-created Financial Stability Oversight Council) authority to promulgate new financial regulations applicable to bank and non-bank financial institutions. The regulatory changes include or may include capital standards and prudential standards for non-bank companies deemed to be systemically important financial institutions (SIFIs) that are more stringent than the standards applicable to non-SIFIs. Aegon has not been designated a SIFI in the United States. In addition, US State financial services regulators may develop capital, accounting and solvency regulatory standards for internationally active insurance groups (IAIGs). The current US administration announced plans to review aspects of the Dodd-Frank Act. This review may result in changes in laws and regulations that may impact US or global operations.

In November 2010, the G20 endorsed a policy framework to address the systemic and moral hazard risks associated with SIFIs, and initially in particular global SIFIs (G-SIFIs). On July 18, 2013, the International Association of Insurance Supervisors (IAIS) published a methodology for identifying global systemically important insurers (G-SIIs), and a set of policy measures that will apply to them. The IAIS has published a revised assessment methodology in June 2016. This revised methodology was employed by the IAIS in the 2016 designation update. The policy measures include recovery and resolution planning requirements, liquidity and systemic risk management planning and enhanced group-wide supervision, including direct powers over holding companies and higher loss absorbency requirements (HLA). The HLA builds on the IAIS Basic Capital Requirements (BCR) and addresses additional capital requirements for G-SIIs reflecting their systemic importance in the international financial system. Additionally, certain aspects of the HLA relate to requirements applicable to other regulated financial sectors for which capital rules already exist. HLA requirements will need to be met by the highest quality capital. In November 2013, the FSB identified an initial list of 9 G-SIIs to which the policy measures above should apply. The group of G-SIIs is updated annually and published by the FSB each November based on new data. Aegon was added to this list in November 2015 and reconfirmed in November 2016 and as a consequence has also become subject to the policy measures described above. The HLA requirements will apply to Aegon, assuming it will continue to be a G-SII when HLA requirements are finalized, which is planned for January 2019. The development of the BCR is the first step and the development of the HLA is the second step in the IAIS project to develop group-wide global capital standards. The third step is the development of a risk based group-wide global Insurance Capital Standard (ICS), due to be completed by 2019 and to be applied to IAIGs. The development of the ICS will be informed by the work on the BCR. When finalized, the ICS will replace the BCR as foundation of the HLA. The IAIS indicates that, because of the interlinkage between the BCR and HLA, the calibration may be modified depending on the HLA requirements. The IAIS currently expects that the HLA will initially be based on the BCR, but will be later based on the ICS. The exact timing of the transition from BCR to ICS will depend on the adoption of the ICS by the IAIS and time needed to develop and implement the framework in the relevant jurisdictions. The internationally developed BCR and HLA currently are calculated using different (criteria and) methodologies than EU Solvency II capital requirements. Only after the calibration of the BCR and HLA has been completed will Aegon be able to determine whether or not these requirements will result in more binding capital constraints than existing requirements, including Solvency II.

An important effect of the Dodd-Frank Act on Aegon USA is the derivatives reform aspect, which aims to increase transparency of derivatives use and reduce systemic risk. Aegon USA entities are considered to fall into Category 2 under the regulations and are therefore required to clear derivative transactions. In addition, Aegon USA has reporting, initial margin and variation margin obligations under the Dodd-Frank Act and associated regulations. However, Aegon cannot predict how the regulations (and any potential amendments thereto) will further affect financial markets generally or Aegon's business, financial condition or results of operations. The new US administration recently announced a review of the Dodd-Frank Act that may result in changes to the regulations.

In the United States, the Patient Protection and Affordable Care Act (PPACA) was enacted in 2011 and upheld, with the exception of the Medicaid expansion mandate, by the US Supreme Court in 2012. PPACA significantly changed the regulation of health insurance in the United States, including in certain respects the regulation of supplemental health insurance products. The current US Presidential administration and US Congress are considering reform of the PPACA which will likely result in changes in laws or regulations that may impact US health insurance industry. The extent to which employers or individuals may discontinue their purchase of supplemental health insurance products as a result of these changes may significantly impact Aegon USA's supplemental health insurance products business. The extent of the expected changes or impact on Aegon USA's supplemental health insurance business cannot be determined at this time.

Solvency II has become effective in EU member states as per January 1, 2016. Due to the fact that the Solvency II framework is new, the interpretation of various elements of the Solvency II framework is not yet fully clear or may change as a result of the way insurers as well as supervisory authorities interpret the new rules. This may also affect the way Aegon implements the Solvency II framework, including Aegon's financial position under Solvency II. Pursuant to Solvency II, Aegon is required to calculate a solvency ratio (own

funds divided by the required solvency, the latter referred to as the Group SCR), for the Aegon Group at the level of Aegon which should be at least equal to 100%. Under Solvency I, EU supervisors usually required insurance and reinsurance undertakings to maintain a substantial percentage of own funds above the statutory minimum requirements. Under Solvency II, Aegon expects that DNB will leave the decision as to whether to hold a buffer of own funds in excess of the Group SCR or the SCR as the case may be to the Aegon Group, and to the insurance and reinsurance undertakings in the Aegon Group. As the prudential supervisor, DNB will nonetheless monitor Aegon's capital management policies. Aegon applies its own capital management policies that determine the Company's risk tolerances on the basis of self-imposed criteria. These policies may result in Aegon, at its own election, but supervised by DNB, maintaining a buffer of own funds in addition to those required in according to Solvency II requirements. Pursuant to these self-imposed criteria, Aegon currently aims to hold a buffer in excess of the 100% minimum Group Solvency Ratio of 40 to 70%, in accordance with Aegon's Group Capital Management Policy. The calculation of the Group Solvency Ratio in accordance with Solvency II is further described in the section Regulation and Supervision.

The United States Department of Labor (DOL) issued a 'Conflict of Interest' or 'Fiduciary' rule in April 2016 (the 'DOL Rule') that substantially broadens the definition of 'fiduciary' with respect to retirement savings and investment plans and products ('qualified assets'). The final rule would, with limited exemptions and carve-outs, make agents and brokers who provide recommendations on qualified assets, subject to a best interest/fiduciary standard.

If implemented as promulgated in April 2016, the DOL Rule could have a material adverse impact from a prospective sales perspective both as to Aegon Americas' retirement plan and annuity businesses, and could create other challenges to the operating model of these businesses. On February 3, 2017, the US President called for a review of the DOL Rule that may result in changes to the regulations. The results of the review and the impact to Aegon America's retirement plan and annuity business will not be known until late in 2017.

Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may adversely affect Aegon's ability to sell new policies or claims exposure on existing policies. For example, in Hungary, the mandatory pension business has been nationalized and therefore Aegon in Hungary has liquidated its mandatory pension business. Similarly, in December 2013, the Polish parliament approved legislation to overhaul the existing state pension system, which was a reason for Aegon to write down its intangible assets.

Other initiatives, such as by the International Association of Insurance Supervisors, may create regulations that would increase capital needs and other requirements that would not be applicable to all carriers and create an uneven competitive playing field.

In general, changes in laws and regulations may materially increase Aegon's direct and indirect compliance costs and other ongoing business expenses and have a materially adverse effect on Aegon's businesses, results of operations or financial condition.

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

It is possible that the euro may be abandoned as a currency in the future by countries that have already adopted its use. This may lead to the re-introduction of individual currencies in one or more European Monetary Union member states, or in more extreme circumstances, the dissolution of the European Monetary Union. It is not possible to predict the effect on the European and global economies of a potential dissolution of the European Monetary Union or the exit of one or more European Union member states from the European Monetary Union. Any such event may have a materially adverse effect on Aegon's future financial condition and results of operations.

**The United Kingdom (UK) leaving the European Union ('Brexit'), potentially followed by more countries, may affect Aegon's results and financial condition.**

On June 23, 2016 the United Kingdom voted in a national referendum to withdraw from the European Union. The United Kingdom is expected to formally serve notice to the European Council of its desire to withdraw but there remains uncertainty regarding this process. The implications of such a 'Brexit' remain unclear, with respect to the European integration process, the relationship between the UK and the European Union, and the impact on economies and businesses. Aegon could be adversely impacted by related market developments such as increased exchange rate movements of the GBP versus the Euro and higher financial market volatility in general due to increased uncertainty, any of which could reduce the value or results of Aegon's operations in the United Kingdom. Aegon could also be adversely impacted should a 'Brexit' result in the UK moving away from agreed and implemented EU legislation like, but not limited to, Solvency II regulations.

More countries could potentially follow the UK in leaving the European Union. This could also result in the mentioned possible abandonment of the euro currency by one or more countries. The topic could be raised in elections and referenda. In 2017 elections will take place in France, Germany and the Netherlands, among others. Any uncertainty, volatility or negative impacts created by these political events could have a material adverse effect on Aegon's results of operations, cash flows or financial position.

**Risks related to the Dutch Intervention Act**

In June 2012, the Dutch Intervention Act (Wet bijzondere maatregelen financiële ondernemingen) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Dutch Intervention Act grants far-reaching new powers to the Dutch Central Bank (De Nederlandsche Bank N.V., DNB) and the Dutch Minister of Finance to intervene in situations where an institution, including a financial group such as Aegon, faces financial difficulties or where there is a serious and immediate risk to the stability of the Dutch financial system caused by an institution in difficulty. The Dutch Intervention Act has been amended in respect of, inter alia, banks as a result of the entry into force of the EU Directive on the recovery and resolution of credit institutions and investments firms, which was approved by the European Parliament on 15 April 2014 and of which the final text was published in the Official Journal of the European Union on 12 June 2014 (the Bank Recovery and Resolution Directive). The Bank Recovery and Resolution Directive also contains provisions that apply to mixed financial holding companies such as Aegon N.V., including the right of bail-in of creditors. Under the Dutch Intervention Act, substantial powers have been granted to DNB and the Dutch Minister of Finance enabling them to deal with ailing Dutch insurance companies as well as holding companies of insurance companies and financial conglomerates prior to insolvency. The measures allow them to commence proceedings which may lead to (a) the transfer of all or part of the business of an ailing insurance company to a private sector purchaser, (b) the transfer of all or part of the business of an ailing insurance company to a 'bridge entity', (c) the transfer of the shares in an ailing insurance company to a private sector purchaser or a 'bridge entity', (d) immediate interventions by the Dutch Minister of Finance concerning an ailing insurance company, and (e) public ownership (nationalisation) of (i) all or part of the business of an ailing insurance company or (ii) all or part of the shares or other securities issued by an ailing insurance company or its holding company. The Dutch Intervention Act also contains measures that limit the ability of counterparties to invoke contractual rights (such as contractual rights to terminate or to invoke a right of set-off or to require security to be posted) if the right to exercise such rights is triggered by intervention of DNB or the Dutch Minister of Finance based on the Dutch Intervention Act or by a circumstance which is the consequence of such intervention. There is a risk that the exercise of powers by DNB or the Dutch Minister of Finance under the Dutch Intervention Act could have a material adverse effect on the performance by the failing institution, including Aegon, of its obligations (of payment or otherwise) under contracts of any form, including the expropriation, write-off, write-down or conversion of securities such as shares and debt obligations issued by the failing institution. Furthermore, the terms of contracts, including debt obligations may be varied (e.g. the variation of maturity of a debt instrument). The Dutch Intervention Act and the Bank Recovery and Resolution Directive aim to ensure that financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. The Dutch Ministry of Finance is expected to publish a proposal of law in the first half of 2017 on recovery and resolution of insurers, and potentially other entities belonging to insurance groups, based in the Netherlands. If and when formally adopted, this act will replace and complement the provisions of the Dutch Intervention Act. The risks related to this new act are comparable to the risks described before in relation to the Dutch Intervention Act.

**Legal and arbitration proceedings and regulatory investigations and actions may adversely affect Aegon's business, results of operations and financial position.**

Aegon faces significant risks of litigation as well as regulatory investigations and actions relating to its and its subsidiaries' insurance, pensions, securities, investment management, investment advisory and annuities businesses as well as Aegon's corporate compliance, including compliance with employment, sanctions, anti-corruption and tax regulations.

Aegon subsidiaries regularly receive inquiries from local regulators and policyholder advocates in various jurisdictions, including the United States, the Netherlands, and the United Kingdom. Regulators may seek fines or penalties, or changes to the way Aegon operates. In some cases, Aegon subsidiaries have modified business practices in response to inquiries. For example, in 2014 the UK Financial Conduct Authority fined Aegon GBP 8.3 million for past sales practices for accident insurance products sold through an affinity marketing unit, which was subsequently placed into runoff.

Insurance companies are routinely the subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities, individual claimants and policyholder advocate groups, involving issues such as employment or distribution relationships; operational controls and processes; environmental matters; competition and antitrust matters; data privacy; information security; intellectual property; and anti-money laundering, anti-bribery and economic sanctions compliance. For example with respect to

employment relationships, Aegon is defending a suit in the state of Georgia filed by self-employed independent insurance agents associated with one of Aegon's financial marketing units who have claimed that they are, in fact, employees of the organization.

In addition, insurance companies are routinely subject to litigation, investigation and governmental review concerning product fees and costs, including transparency and adequacy of disclosure of initial costs, ongoing costs, and costs due on policy surrender as well as changes to costs over time. Disputes and investigations initiated by governmental entities and private parties may lead to orders or settlements including payments or changes to business practices even if Aegon believes the underlying claims are without merit. Aegon and other US insurers have been sued for charging fees on products offered in 401(k) platforms which allegedly were higher than fees charged on other products available in the market. US insurers, including Aegon's subsidiaries, have also been named in class action litigation relating to increases in monthly deductions made to universal life products. Plaintiffs generally allege that the increases were made to recoup past losses rather than to cover the future costs of providing insurance coverage. These cases are pending in the US federal district court for the Central District of California. In the Netherlands, unit linked products ('beleggingsverzekeringen') have been controversial and the target of litigation since 2005. Allegations include excessive cost, inadequate disclosure, and failure to perform as illustrated. Consumer groups have formed to address these issues and initiate mass claims against insurers. Regulators as well as the Dutch Parliament have been involved ever since, with the principal goal of achieving an equitable resolution. Aegon expects the claims and litigation on unit linked products to continue for the foreseeable future. Developments in similar cases against other Dutch insurers currently before regulators and courts may also affect Aegon. In March 2014, consumer interest group Vereniging Woekerpolis.nl filed a claim against Aegon in court. The claim related to a range of unit linked products that Aegon sold in the past, including Aegon products involved in earlier litigation. Lawsuits have also been brought against providers of securities leasing products ('aandelenlease producten'). Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In 2016, the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that the financial institution was liable if a broker ('remisier') that advised on the sale of the institution's products, was not properly licensed. In July 2016, consumer interest group Platform Aandelenlease filed a class action claim against Aegon Bank regarding securities leasing product Sprintplan. Allegations include, among other things, a lack of a proper license of the brokers involved. There can be no assurances that this matter will not ultimately result in a material adverse effect on Aegon's business, results of operations and financial position. In Poland, owners of unit-linked policies filed claims in civil court against Aegon over fees payable upon purchase or surrender of the product. For reasons of commercial necessity as well as at the instigation of regulatory authorities, Aegon decided to modify the fee structure. Aegon faces a significant number of cases in Poland in which plaintiffs claim that these fees are not contractually supported.

Many of Aegon's products are affected by fluctuations in equity markets as well as interest rate movements, which may prove to be volatile or disappointing to customers. Significant investment risks are often borne by the customer.

The existence of potential claims may remain unknown for long periods of time after the events giving rise to such claims. Determining the likelihood of exposure to Aegon and the extent of any such exposure may not be possible for long periods of time after Aegon becomes aware of such potential claims. Once litigation is initiated, it may be protracted and subject to multiple levels of appeal.

Aegon cannot predict the effect of litigation, investigations or other actions on its businesses or the insurance industry. In some jurisdictions, plaintiffs may seek recovery of very large or indeterminate amounts under claims of bad faith, resulting in punitive or treble damages. Damages alleged may not be quantifiable or supportable, or may have no relationship to economic losses or final awards. Separate from financial loss, litigation, regulatory action, legislative changes or changes in public opinion may require Aegon to change its business practices, which could have a material adverse impact on Aegon's businesses, results of operations, cash flows and financial position.

**Aegon's risk management policies and processes may leave the company exposed to unidentified or unanticipated risk events, adversely affecting our businesses, results and financial condition.**

Aegon has devoted significant resources to the implementation and maintenance of a comprehensive enterprise risk management framework in all aspects of the business. Notwithstanding, our risk measurements do make use of historic and public data that may be inaccurate or may not predict future exposures. Further, operational and legal risks involve high volumes of transactions and are affected by frequent changes in our businesses and their environments, and the risk management framework may not evolve at the same pace. As a result, there is a chance that risks present in our business strategies and initiatives may not be fully identified, monitored and managed.

**State statutes and regulators may limit the aggregate amount of dividends payable by Aegon's subsidiaries and Aegon N.V., thereby limiting Aegon's ability to make payments on debt obligations.**

Aegon's ability to make payments on debt obligations and pay some operating expenses is dependent upon the receipt of dividends from subsidiaries. Some of these subsidiaries have regulatory restrictions that can limit the payment of dividends. In addition, local regulators, acting to represent the interests of local policyholders, are taking an increasingly restrictive stance with respect to permitting dividend payments, which may affect Aegon's ability to satisfy its debt obligations or pay its operating expenses.

**Changes in accounting standards may affect Aegon's reported results, shareholders' equity and dividend.**

Since 2005, Aegon's financial statements have been prepared and presented in accordance with IFRS-EU. Any future changes in these accounting standards may have a significant impact on Aegon's reported results, financial condition and shareholders' equity. This includes the level and volatility of reported results and shareholders' equity. New accounting standards that are likely to have a significant impact on Aegon's reported results, financial condition and shareholders' equity include but are not limited to IFRS 9 – Financial Instruments and IFRS 4 – Insurance contracts. On July 24, 2014, the IASB issued the fourth and final version of its new standard on financial instruments accounting – IFRS 9 Financial Instruments. Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. However, the IASB has issued an amendment related 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 defer the application of IFRS 9 until 2021 (the 'temporary exemption'); and 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 has decided to 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 is able to 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, net result and/or other comprehensive income and disclosures. An implementation project will be combined with the implementation of the new insurance contracts Standard which is expected to be issued by the IASB in the first half-year of 2017.

Further details on IFRS 9 are provided in note 2.1.2 Future adoption of new IFRS-EU accounting standards of the consolidated financial statements. During 2016, the IASB continued deliberations on its Exposure Draft Insurance Contracts that was published by the IASB in June 2013. The IASB's project to replace IFRS 4 Insurance Contracts is at an advanced stage and a final standard may be published by the IASB mid 2017. However, the standard will not become effective before 2021. The proposed changes in the accounting for insurance contracts will have a significant impact on Aegon.

**Tax law changes may adversely affect Aegon's profitability, as well as the sale and ownership of Aegon's products.**

Aegon is subject to the substance and interpretation of tax laws in all countries in which Aegon operates or invests. Tax risk is the risk associated with changes in tax laws, or the interpretation of tax laws, later jurisprudence or case law, or the introduction of new taxes or tax laws. This tax risk also includes the risk of changes in tax rates and the risk of consequences arising from failure to comply with procedures required by tax authorities. Failure to manage tax risks may lead to increased tax charges, including financial or operating penalties. This tax risk may have a direct materially adverse effect on Aegon's profits and financial condition.

Further, most insurance products enjoy certain tax advantages, particularly in the United States and the Netherlands, which permit the tax deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products under certain conditions and within certain limits. Taxes on this inside build-up of earnings may not be payable at all and, if payable, generally are due only when the earnings are actually paid.

The US Congress has, from time to time, considered possible legislation that may make Aegon's products less attractive to consumers, including legislation that would reduce or eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. This may have an impact on insurance products and sales in the United States.

The US Government, as well as state and local governments, also considers from time to time tax law changes that may increase the amount of taxes that Aegon pays. For example, over the past several years members of the tax-writing committees in Congress have discussed and informally proposed significant changes to the computation of tax reserves, capitalized policy acquisition costs and the dividends received deduction available to life insurance companies. Congress has not, however acted on these proposals.

Changes in tax laws also include proposals that would limit the ability of companies to deduct third party and/or intragroup interest expense. Policymakers both at international level (OECD and EU) and national level (such as the US, UK and the Netherlands) have been or are (further) considering tax law changes that may impact the deductibility of interest expenses for companies.

Any changes in tax laws, interpretation of tax laws, later jurisprudence or case law, or the introduction of new taxes or tax laws in all countries in which Aegon operates or invests, which affects Aegon's products, may have a materially adverse effect on Aegon's businesses, results of operations and financial condition.

**Competitive factors may adversely affect Aegon's market share.**

Competition in Aegon's business segments is based on service, product features, price, commission structure, financial strength, claims paying ability, ratings and name recognition. Aegon faces intense competition from a large number of other insurers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employers, other group customers, agents and other distributors of insurance and investment products. Consolidation in the global financial services industry can enhance the competitive position of some of Aegon's competitors by broadening the range of their products and services, and increasing their distribution channels and their access to capital. In addition, development of alternative distribution channels for certain types of insurance and securities products, including through the internet, may result in increasing competition as well as pressure on margins for certain types of products. Traditional distribution channels are also challenged by the ban on sales-based commissions in some countries. These competitive pressures may result in increased pricing pressures on a number of products and services, particularly as competitors seek to win market share. This may harm Aegon's ability to maintain or increase profitability.

Adverse market and economic conditions can be expected to result in changes in the competitive landscape. Financial distress experienced by financial services industry participants as a result of weak economic conditions and newly imposed regulation may lead to acquisition opportunities. Aegon's ability or that of Aegon's competitors to pursue such opportunities may be limited due to lower earnings, reserve increases, capital requirements or a lack of access to debt capital markets and other sources of financing. Such conditions may also lead to changes by Aegon or Aegon's competitors in product offerings and product pricing that may affect Aegon and Aegon's relative sales volumes, market shares and profitability. Additionally, the competitive landscape in which Aegon operates may be affected by government-sponsored programs or actions taken in response to, for instance, dislocations in financial markets.

**Aegon may experience difficulties in distributing and marketing products through our current and future distribution channels.**

Although Aegon distributes its products through a wide variety of distribution channels, Aegon's ability to market its products could be affected if key relationships would be interrupted. Distributors may elect to reduce or terminate their distribution relationship with Aegon due to adverse developments in our business. Further, key distribution partners may also merge, change their business models in ways that affect how our products are sold, or new distribution channels could emerge and adversely impact the effectiveness of our current distribution efforts.

When Aegon's products are distributed through unaffiliated firms, Aegon may not always be able to monitor or control the manner of their distribution despite our significant training and compliance programs. If our products would be distributed by such firms in an inappropriate manner, or to customers for whom they are unsuitable, Aegon may suffer reputational and other harm to our business.

**The default of a major market participant may disrupt the markets and may affect our business, financial condition, liquidity, operations and prospects.**

The failure of a sufficiently large and influential financial institution, or other market participant including a government issuer, may disrupt securities markets or clearance and settlement systems in Aegon's markets. This may cause market declines or volatility. Such a failure may lead to a chain of defaults that may adversely affect Aegon and Aegon's contract counterparties. In addition, such a failure may impact future product sales as a potential result of reduced confidence in the insurance industry. The default of one or more large international financial institutions, which may result in disruption or termination of their cash, custodial or and administrative services, may also have a material adverse impact on Aegon's ability to run effective treasury and asset management operations.

Even the perceived lack of creditworthiness of a government or financial institution (or a default by any such entity) may lead to market- wide liquidity problems and losses or defaults by Aegon or by other institutions. This risk is sometimes referred to as 'systemic

risk' and may adversely affect financial intermediaries, such as clearing members or futures commissions merchants, clearing houses, banks, securities firms and exchanges with whom Aegon interacts on a daily basis and financial instruments of government in which Aegon invests. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity and/or prospects. In addition, such distress or failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

**Aegon may be unable to retain personnel who are key to the business.**

As a global financial services enterprise, Aegon relies, to a considerable extent, on the quality of local management in the various countries in which Aegon operates. The success of Aegon's operations is dependent, among other things, on Aegon's ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which Aegon operates is intense. Aegon's ability to attract and retain key personnel, in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is very much dependent on the competitiveness of the compensation package for employees in the market in which it competes. As a part of the governmental response in Europe and, to a certain extent, the United States to the financial crisis in 2008, there have been various legislative initiatives that have sought to give guidance or regulate the structure of remuneration for personnel, in particular senior management, with a focus on performance- related remuneration and limiting severance payments. With differences in interpretation of these regulations by local regulators on how the guidelines need to be applied, as well as to the question of whether they apply to insurance industries at all, these restrictions create an uncertain playing field and may adversely affect Aegon's ability to compete for qualified employees, as well as Aegon's ability to exchange employees between regions.

**Reinsurers to whom Aegon has ceded risk may fail to meet their obligations.**

Aegon's insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. The purpose of these reinsurance agreements is to spread the risk and minimize the effect of losses. The amount of each risk retained depends on an evaluation of the specific risk, which is subject, in certain circumstances, to maximum limits based on the characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the ceded amount in the event a covered claim is paid. However, Aegon's insurance subsidiaries remain liable to their policyholders for ceded insurance if any reinsurer fails to meet the obligations assumed by it. A bankruptcy or insolvency or inability of any of Aegon's reinsurance counterparties to satisfy its obligations may have a materially adverse effect on Aegon's financial position and results of operations. Refer to Schedule IV of this Annual Report for a table showing life insurance in force amounts and premiums on a direct, assumed and ceded basis.

**Reinsurance may not be available, affordable or adequate to protect Aegon against losses.**

As part of Aegon's overall risk and capital management strategy, Aegon purchases reinsurance for certain risks underwritten by Aegon's various business segments. Market conditions beyond Aegon's control determine the availability and cost of the reinsurance protection Aegon purchases. In addition, interpretations of terms and conditions may differ over time as contracts extend for decades. Accordingly, Aegon may be forced to incur additional expenses for reinsurance or may not be able to obtain or enforce sufficient reinsurance on acceptable terms, which may adversely affect Aegon's ability to write future business and realize planned value for current business.

**Aegon may have difficulty managing its expanding operations, and Aegon may not be successful in acquiring new businesses or divesting existing operations.**

In recent years, Aegon has made a number of acquisitions and divestitures around the world and it is possible that Aegon may make further acquisitions and divestitures in the future. Growth by acquisition involves risks that may adversely affect Aegon's operating results and financial condition. These include: the potential diversion of financial and management resources from existing operations; difficulties in assimilating the operations, technologies, products and personnel of the acquired company; significant delays in completing the integration of acquired companies; the potential loss of key employees or customers of the acquired company; potential losses from unanticipated litigation, and tax and accounting issues. In addition, expansion into new and emerging markets may involve heightened political, legal and regulatory risks, such as discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls.

Aegon's acquisitions may result in additional indebtedness, costs, contingent liabilities and impairment expenses related to goodwill and other intangible assets. In addition, they may divert management's attention and other resources. Divestitures of existing operations may result in Aegon assuming or retaining certain contingent liabilities. All of these may adversely affect Aegon's businesses, results of operations and financial condition. Future acquisitions may also have a dilutive effect on the ownership and

voting percentages of existing shareholders. There can be no assurance that Aegon will successfully identify suitable acquisition candidates or that Aegon will properly value acquisitions made. Aegon is unable to predict whether or when any prospective acquisition candidate will become available, or the likelihood that any acquisition will be completed once negotiations have commenced.

**Catastrophic events, which are unpredictable by nature, may result in material losses and abruptly and significantly interrupt Aegon's business activities.**

Aegon's operating results and financial position may be adversely affected by volatile natural and man-made disasters such as hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions, pandemic disease and other catastrophes. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. Generally, Aegon seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation, and purchasing reinsurance. However, such events may lead to considerable financial losses to Aegon's businesses. Furthermore, natural disasters, terrorism and fires may disrupt Aegon's operations and result in significant loss of property, key personnel and information about Aegon and its clients. If its business continuity plans have not included effective contingencies for such events, Aegon may experience business disruption and damage to corporate reputation and financial condition for a substantial period of time.

**Aegon regularly develops new financial products to remain competitive in its markets and to meet the expectations of its customers. If customers do not achieve expected returns on those products, Aegon may be confronted with legal claims, advocate groups and negative publicity.**

Aegon may face claims from customers, both individual claimants as well as policyholder advocate groups, and negative publicity if Aegon's products result in losses or fail to result in expected gains, regardless of the suitability of products for customers or the adequacy of the disclosure provided to customers by Aegon and by the intermediaries who distribute Aegon's products. New products that are less well understood and that have less of a historical performance track record may be more likely to be the subject of such claims. Any such claims may have a materially adverse effect on Aegon's results of operations, corporate reputation and financial condition.

**Aegon may not be able to protect its intellectual property and may be subject to infringement claims.**

Aegon relies on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect Aegon's intellectual property. Third parties may infringe on or misappropriate Aegon's intellectual property, and it is possible that third parties may claim that Aegon has infringed on or misappropriated their intellectual property rights. Any resulting proceedings in which Aegon would have to enforce and protect its intellectual property, or defend itself against a claim of infringement of a third-party's intellectual property, may require significant effort and resources and may not prove successful. As a result of any proceeding in which Aegon would have to enforce and protect its intellectual property, Aegon may lose intellectual property protection, which may have a materially adverse effect on Aegon's businesses, results of operation, financial condition and Aegon's ability to compete. As a result of any proceeding in which Aegon would have to defend itself against a claim of infringement of a third-party's intellectual property, Aegon may be required to pay damages and provide injunctive relief, which may have a materially adverse effect on Aegon's businesses, results of operations and financial condition.

**Inadequate or failed processes or systems, human factors or external events may adversely affect Aegon's profitability, reputation or operational effectiveness.**

Operational risk is inherent in Aegon's businesses and may manifest itself in many ways, including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, processing errors, modelling errors, and/or internal and external fraud. These events may result in financial loss, harm Aegon's reputation, or hinder Aegon's operational effectiveness. Further, employee error, unethical behavior and/or misconduct may be difficult to prevent under all circumstances and may result in significant losses.

Aegon's management maintains a well-controlled environment and sound (conduct) policies and practices to control these risks and keep operational risk at appropriate levels. Notwithstanding these control measures, however, operational risk is part of the business environment in which Aegon operates, and is inherent in Aegon's size and complexity, as well as Aegon's geographic diversity, and the scope of the businesses Aegon operates. Aegon's risk management activities cannot anticipate every circumstance, and economic and financial outcome, or the specifics and timing of such outcomes. Furthermore, if the contractual arrangements put in place with any third-party service providers are terminated, including contractual arrangements with providers of information technology,

administrative or investment management services, Aegon may not be able to find an alternative provider on a timely basis or on equivalent terms. Aegon may incur significant losses due to these types of risks.

**Aegon's operations support complex transactions and are highly dependent on the proper functioning of information technology and communication systems. Any failure of Aegon's information technology or communications systems may result in a material adverse effect on Aegon's results of operations and corporate reputation.**

While systems and processes are designed to support complex transactions and avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure may lead to a materially adverse effect on Aegon's results of operations and corporate reputation. In addition, Aegon must commit significant resources to maintain and enhance its existing systems in order to keep pace with industry standards and customer preferences. If Aegon fails to keep up-to-date information systems, Aegon may not be able to rely on information for product pricing, risk management and underwriting decisions. In addition, even though back-up and recovery systems and contingency plans are in place, Aegon cannot assure investors that interruptions, failures or breaches in security of these processes and systems will not occur, or if they do occur, that they can be adequately addressed. The occurrence of any of these events may have a materially adverse effect on Aegon's businesses, results of operations and financial condition.

**A computer system failure or security breach may disrupt Aegon's business, damage Aegon's reputation and adversely affect Aegon's results of operations, financial condition and cash flows.**

Changes towards more sophisticated internet technologies, the introduction of new products and services, changing customer needs and evolving applicable standards increase the dependency on internet, secure systems and related technology. Introducing new technologies, computer system failures, cyber-crime attacks or security breaches may disrupt Aegon's business, damage Aegon's reputation and adversely affect Aegon's results of operations, financial condition and cash flows.

**A breach of data privacy and security obligations may disrupt Aegon's business, damage Aegon's reputation and adversely affect financial conditions and results of operations.**

Pursuant to applicable laws, various government agencies and independent administrative bodies have established rules protecting the privacy and security of personal information. A number of Aegon's subsidiaries are also subject to contractual restrictions with respect to the information of our clients and business partners. Aegon, and numerous of its systems, employees and business partners have access to, and routinely process, the personal information of consumers. Aegon relies on various processes and controls to protect the confidentiality of personal information and other confidential information that is accessible to, or in the possession of, Aegon, its systems, employees and business partners. It is possible that an Aegon employee, business partner or system could, intentionally or unintentionally, inappropriately disclose or misuse personal or confidential information. Aegon's data or data in its possession could also be the subject of a cybersecurity attack. If Aegon fails to maintain adequate controls or if Aegon or its business partners fail to comply with policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of personal information or other confidential information could occur. Such control inadequacies or non-compliance could materially damage Aegon's reputation or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on Aegon's business, financial condition and results of operations. In addition, Aegon analyzes personal information and customer data to better manage its business, subject to applicable laws and regulations and other restrictions. It is possible that additional regulatory or other restrictions regarding the use of such techniques may be imposed. Additional privacy and security obligations may also be imposed. Such limitations could have material impacts or Aegon's business, financial conditions and/or results of operations.

**Judgments of US courts are not enforceable against Aegon in Dutch courts.**

There is no treaty between the United States and the Netherlands providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Judgments of US courts, including those predicated on the civil liability provisions of the US federal securities laws, may not be enforceable in Dutch courts. Therefore, Aegon's investors that obtain a judgment against Aegon in the United States may not be able to require Aegon to pay the amount of the judgment unless a competent court in the Netherlands gives binding effect to the judgment. It may, however, be possible for a US investor to bring an original action in a Dutch court to enforce liabilities against Aegon, Aegon's affiliates, directors, officers or any expert named therein who resides outside the United States, based upon the US federal securities laws.

## II - Risks relating to Aegon's common shares

**Aegon's share price could be volatile and could drop unexpectedly, and investors may not be able to resell Aegon's common shares at or above the price paid.**

The price at which Aegon's common shares trade is influenced by many factors, some of which are specific to Aegon and Aegon's operations, and some of which are related to the insurance industry and equity markets in general. As a result of these factors, investors may not be able to resell their common shares at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of Aegon's common shares:

- Investor perception of Aegon as a company;
- Actual or anticipated fluctuations in Aegon's revenues or operating results;
- Announcements of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings;
- Changes in Aegon's dividend policy, which may result from changes in Aegon's cash flow and capital position;
- Sales of blocks of Aegon's shares by significant shareholders, including Vereniging Aegon;
- A downgrade or rumored downgrade of Aegon's credit or financial strength ratings, including placement on credit watch;
- Potential litigation involving Aegon or the insurance industry in general;
- Changes in financial estimates and recommendations by securities research analysts;
- Fluctuations in capital markets, including foreign exchange rates, interest rates and equity markets;
- The performance of other companies in the insurance sector;
- Regulatory developments in the United States, the Netherlands, the United Kingdom, and other countries in which Aegon operates;
- International political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events, and the uncertainty related to these developments;
- News or analyst reports related to markets or industries in which Aegon operates; and
- General insurance market conditions.

**Aegon and its significant shareholders may offer additional common shares in the future, and these and other sales may adversely affect the market price of the outstanding common shares.**

Aegon may decide to offer additional common shares in the future, for example, to strengthen Aegon's capital position in response to regulatory changes or to support an acquisition.

In 2016, Vereniging Aegon entered into a three year term and revolving facilities agreement with a consortium of banks. Under this agreement, Aegon's common shares in the possession of Vereniging Aegon are pledged to the consortium of banks. If Vereniging Aegon were to default under the facilities agreement in force at that time, the lenders may dispose of Aegon's common shares held by them as collateral in order to satisfy amounts outstanding.

An additional offering of common shares by Aegon, the restructuring of Aegon's share capital, the sales of common shares by significant shareholders or by lenders to Vereniging Aegon, or the public perception that an offering or such sales may occur, may have an adverse effect on the market price of Aegon's common shares.

As of December 31, 2016, there were 2,047,548,842 common shares and 585,022,160 common shares B issued. Of these, Vereniging Aegon held 279,236,609 common shares and 567,697,200 common shares B. All of Aegon's outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging Aegon, are free to resell their common shares at any time.

**Vereniging Aegon, Aegon's major shareholder, holds a large percentage of the voting shares and therefore has significant influence over Aegon's corporate actions.**

Prior to September 2002, Vereniging Aegon beneficially owned approximately 52% of the voting shares and thus held voting control over Aegon. In September 2002, Vereniging Aegon reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by Aegon). In 2003, Aegon and Vereniging Aegon amended the 1983 Merger Agreement, resulting in a right for Vereniging Aegon, upon issuance of shares by Aegon, to purchase as many class B preferred shares existing at that time as would enable it to prevent or offset a dilution to below its actual voting power percentage of 33%. In 2013, Aegon N.V. and Vereniging Aegon entered into an agreement to simplify the capital structure of Aegon and to cancel all of Aegon's preferred shares, of which Vereniging Aegon was the sole owner. The execution of this agreement was approved by the General Meeting of Shareholders of Aegon N.V. on May 15, 2013. For details on the simplification of the corporate structure, please see the section Major shareholders at pages 329-331.

The simplified capital structure included an amendment to the 1983 Amended Merger Agreement between Aegon N.V. and Vereniging Aegon. Following this 2013 amendment, Vereniging Aegon's call option relates to common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake at 32.6%, irrespective of the circumstances which cause the total shareholding to be or become lower than 32.6%.

The simplification of the capital structure also entailed the amendment of the Voting Rights Agreement between Aegon N.V. and Vereniging Aegon. As a matter of Dutch corporate law, the shares of both classes offer equal full voting rights, as they have equal nominal values (EUR 0.12). The financial rights attached to a common share B is 1/40th of the financial rights attached to a common share. The amended Voting Rights Agreement ensures that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon will no longer be able 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. A Special Cause includes the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group or persons, whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. Accordingly, at December 31, 2016, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.4%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase to 32.6% for up to six months.

Consequently, Vereniging Aegon may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

- Adopting amendments to the Articles of Association;
- Adopting the Annual Accounts;
- Approving a consolidation or liquidation;
- Approving a tender offer, merger, sale of all or substantially all of the assets, or other business combination; and
- In particular, during the periods when Vereniging Aegon is entitled to exercise its increased voting rights, it will generally have sufficient voting power to veto certain decisions presented to the General Meeting of Shareholders, including any proposal relating to the following matters:
  - Rejecting binding Supervisory Board nominations for membership to the Supervisory Board and Executive Board;
  - Appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and
  - Suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

**Currency fluctuations may adversely affect the trading prices of Aegon's common shares and the value of any cash distributions made.**

Since Aegon's common shares listed on Euronext Amsterdam are quoted in euros and Aegon's common shares listed on NYSE New York are quoted in US dollars, fluctuations in exchange rates between the euro and the US dollar may affect the value of Aegon's common shares. In addition, Aegon declares cash dividends in euros, but pays cash dividends, if any, on Aegon's shares of New York registry in US dollars based on an exchange rate set the business day following the shareholder meeting approving the dividend. As a result, fluctuations in exchange rates may affect the US dollar value of any cash dividends paid.

**Convertible securities (or other securities that permit or require Aegon to satisfy its obligations by issuing common shares) that Aegon may issue could influence the market price for Aegon's common shares.**

In the future, Aegon may issue convertible securities or other securities that permit or require Aegon to satisfy obligations by issuing common shares. Those securities would likely influence, and be influenced by, the market for Aegon's common shares.

For example, the price of Aegon's common shares may become more volatile and may be depressed by investors' anticipation of the potential resale in the market of substantial amounts of Aegon's common shares received at maturity. Aegon's common shares may also be depressed by the acceleration of any convertible securities (or other such securities) that Aegon has issued by investors who view such convertible securities (or other such securities) as a more attractive means of participation in Aegon's equity. Negative results may also be produced by hedging or arbitrage trading activity that may develop involving such convertible securities (or other such securities) and Aegon's common shares. Any such developments may negatively affect the value of Aegon's common shares.

## Property, plant and equipment

In the United States, Aegon owns many of the buildings that the company uses in the normal course of its business, primarily as offices. Aegon owns 16 offices located throughout the United States with a total square footage of 2 million. Aegon also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1 million. Aegon's principal offices are located in Little Rock, AR; Los Angeles, CA; Denver, CO; Cedar Rapids, IA; St. Petersburg, FL; Atlanta, GA; Louisville, KY; Baltimore, MD; Harrison, NY; Exton, PA; and Plano, TX.

Other principal offices owned by Aegon are located in The Hague, the Netherlands and Budapest, Hungary. Aegon owns its headquarters and leases other offices in the Netherlands (Leeuwarden), in the United Kingdom and in Spain under long-term leases. Aegon believes that its properties are adequate to meet its current needs.

## Employees and labor relations

At the end of 2016, Aegon had 29,380 employees. Approximately 41% are employed in the Americas, 35% in Europe, 19% in Asia and 5% in Asset Management. Note that employees of the Holding are included in Europe.

All of Aegon's employees in the Netherlands, other than senior management, are covered by the collective labor agreement of Aegon NL. Aegon, the unions and the Dutch Central Works Council are working closely together in the co-creation steering group to come to new agreements. The current collective agreement has a duration of three years. Aegon has experienced no significant strike, work stoppage or labor dispute in recent years.

Under Dutch law, members of the Central Works Council responsible for Aegon in the Netherlands are elected by Aegon the Netherlands' employees. The Central Works Council has certain defined powers at the level of the Dutch subsidiary company Aegon Nederland N.V., including the right to make non-binding recommendations for appointments to its Supervisory Board and the right to enter objections against proposals for appointments to that Supervisory Board.

A break-down of the number of employees is provided below:

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Americas | 11,943 | 12,701 | 12,865 |
| The Netherlands | 4,794 | 4,802 | 4,700 |
| United Kingdom | 2,673 | 2,478 | 2,644 |
| Central & Eastern Europe | 2,317 | 2,470 | 2,495 |
| Spain & Portugal | 600 | 534 | 433 |
| Asia | 5,579 | 7,163 | 4,189 |
| Asset Management | 1,474 | 1,382 | 1,276 |
| | **29,380** | **31,530** | **28,602** |
| Of which Aegon's share of employees in joint ventures and associates | 5,944 | 7,499 | 4,429 |

See note 14 Commissions and expenses of the Notes to the consolidated financial statements of this Annual Report for a description of employee expenses.

## Dividend policy

Under Dutch law and Aegon's Articles of Association, holders of Aegon's common shares are entitled to dividends paid out of the profits remaining, if any, after the creation of a reserve account. Aegon's Executive Board may determine the dividend payment date and the dividend record date for the common shares, which may vary for the various kinds of registered shares. Aegon's Executive Board, with the approval of Aegon's Supervisory Board, may also determine the currency or currencies in which the dividends will be paid. Aegon may make one or more interim distributions to the holders of common shares.

Aegon aims to pay out a sustainable dividend to allow equity investors to share in Aegon's performance, which can grow over time if Aegon's performance so allows. After investment in new business to generate organic growth, capital generation in Aegon's operating subsidiaries is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating subsidiaries in line with Aegon's capital management and liquidity risk policies.

Aegon uses cash flows from its operating subsidiaries to pay holding expenses, including funding costs. The remaining cash flow is available to execute Aegon's strategy and to fund dividends on its shares, subject to maintaining holding company targeted capital. Depending on circumstances, future prospects and other considerations, Aegon's Executive Board may elect to deviate from this target. Aegon's Executive Board will also take capital position, financial flexibility, leverage ratios and strategic considerations into account when declaring or proposing dividends on common shares.

Under normal circumstances, Aegon would expect to declare an interim dividend when announcing Aegon's second quarter results and to propose a final dividend at the Annual General Meeting of Shareholders for approval. Dividends would normally be paid in cash or stock at the election of the shareholder. The relative value of cash and stock dividends may vary. Stock dividends paid may, subject to capital management and other considerations, be repurchased in order to limit dilution.

When determining whether to declare or propose a dividend, Aegon's Executive Board has to balance prudence versus offering an attractive return to shareholders, for example in adverse economic and/or financial market conditions. Also, Aegon's operating subsidiaries are subject to local insurance regulations which could restrict dividends to be paid to the Company. There is no requirement or assurance that Aegon will declare and pay any dividends.

Holders of common shares historically have been permitted to elect to receive dividends, if any, in cash or in common shares. For dividends, which holders may elect to receive in either cash or common shares, the value of the stock alternative may differ slightly from the value of the cash option. Aegon pays cash dividends on shares of New York registry in US dollars through Citibank, N.A., Aegon's NYSE paying agent, based on the foreign exchange reference rate (WM/Reuters closing spot exchange rate fixed at 5.00 pm Central European Summer Time ('CEST')) on the US-ex dividend day.

## The offer and listing

The principal market for Aegon's common shares is Euronext Amsterdam. Aegon's common shares are also listed on NYSE New York.

The table below sets forth, for the calendar periods indicated, the high and low sales prices of Aegon's common shares on Euronext Amsterdam and NYSE New York as reported by Bloomberg and is based on closing prices.

| | Euronext Amsterdam (EUR) | | NYSE New York (USD) | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 2012 | 4.89 | 4.07 | 6.47 | 5.22 |
| 2013 | 6.86 | 4.23 | 9.48 | 5.76 |
| 2014 | 6.96 | 5.75 | 9.46 | 7.27 |
| 2015 | 7.70 | 4.87 | 8.35 | 5.41 |
| **2016** | 5.65 | 3.01 | 6.09 | 3.37 |
| **2014** | | | | |
| First quarter | 6.96 | 6.23 | 9.46 | 8.39 |
| Second quarter | 6.77 | 6.13 | 9.32 | 8.44 |
| Third quarter | 6.64 | 5.75 | 9.02 | 7.68 |
| Fourth quarter | 6.61 | 5.83 | 8.27 | 7.27 |
| **2015** | | | | |
| First quarter | 7.70 | 5.87 | 8.35 | 6.97 |
| Second quarter | 7.65 | 6.37 | 8.22 | 7.24 |
| Third quarter | 7.22 | 4.87 | 7.93 | 5.51 |
| Fourth quarter | 5.94 | 4.93 | 6.38 | 5.41 |
| **2016** | | | | |
| First quarter | 5.65 | 4.04 | 6.00 | 4.59 |
| Second quarter | 5.41 | 3.47 | 6.09 | 3.91 |
| Third quarter | 3.98 | 3.00 | 4.37 | 3.37 |
| Fourth quarter | 5.32 | 3.38 | 5.72 | 3.84 |
| Sep-16 | 3.74 | 3.27 | 4.17 | 3.71 |
| Oct-16 | 4.01 | 3.38 | 4.42 | 3.84 |
| Nov-16 | 4.88 | 3.68 | 5.26 | 4.22 |
| Dec-16 | 5.32 | 4.69 | 5.72 | 5.07 |
| **2017** | | | | |
| January 2017 | 5.40 | 4.93 | 5.71 | 5.30 |
| February 2017 | 5.49 | 4.89 | 5.69 | 5.23 |
| March 2017 (through March 8, 2017) | 5.35 | 5.04 | 5.69 | 5.46 |

On Euronext Amsterdam only Euronext registered shares may be traded, and on NYSE New York only New York Registry Shares may be traded.

## Memorandum and Articles of Association

Aegon is registered under number 27076669 in the Commercial Register of the Chamber of Commerce and Industries for Haaglanden, The Hague, the Netherlands.

Certain provisions of Aegon's current Articles of Association are discussed below.

### Objects and purposes

- The objects of Aegon are to incorporate, acquire and alienate shares and interests in, to finance and grant security for commitments of, to enter into general business relationships with, and to manage and grant services to legal entities and other entities, in particular those involved in the insurance business, and to do all that is connected therewith or which may be conducive thereto, all to be interpreted in the broadest sense; and
- In achieving the aforesaid objects due regard shall be taken, within the scope of sound business operations, to provide fair safeguards for the interests of all the parties directly or indirectly involved in Aegon.

### Provisions related to directors

For information with respect to provisions in the Articles of Association relating to members of the Supervisory Board and Executive Board, refer to the Governance section (see pages 104-123).

### Description of Aegon's capital stock

Aegon has two types of shares: common shares (par value EUR 0.12) and common shares B (par value EUR 0.12).

#### Common characteristics of the common shares and common shares B

- All shares are in registered form;
- All shares have dividend rights except for those shares (if any) held by Aegon as treasury stock. Dividends which have not been claimed within five years lapse to Aegon;
- Each currently outstanding share is entitled to one vote except for shares held by Aegon as treasury stock. There are no upward restrictions;
- However, under normal circumstances, i.e. except in the event of a Special Cause, based on the Voting Rights Agreement[1], Vereniging Aegon will no longer be able 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. As Special Cause qualifies the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a Special Cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of one vote per common share B for a limited period of six months;
- All shares have the right to participate in Aegon's net profits. Net profits is the amount of profits after contributions, if any, to a reserve account;
- In the event of liquidation, all shares have the right to participate in any remaining balance after settlement of all debts;
- The General Meeting of Shareholders may, at the proposal of the Executive Board, as approved by the Supervisory Board, resolve to reduce the outstanding capital either by (i) repurchasing shares and subsequently canceling them, or (ii) by reducing their nominal share value;
- There are no sinking fund provisions;
- All issued shares are fully paid-up; so there is no liability for further capital calls; and
- There are no provisions discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares.

#### Differences between common shares and common shares B

- The common shares are listed; the common shares B are not listed;
- The financial rights attaching to a common share B are one-fortieth (1/40th) of the financial rights attaching to a common share; and
- A repayment on common shares B needs approval of the holders of common shares B.

1 The Voting Rights Agreement is published on Aegon's corporate website.

### Actions necessary to change the rights of shareholders

A change to the rights of shareholders would require an amendment to the Articles of Association. The General Meeting of Shareholders (Annual General Meeting or extraordinary General Meeting) may only pass a resolution to amend the Articles of Association pursuant to a proposal of the Executive Board with the approval of the Supervisory Board. The resolution requires a majority of the votes cast at the meeting in order to pass. The actual changes to the text of the Articles of Association will be executed by a civil law notary.

Furthermore, a resolution of the General Meeting of Shareholders to amend the Articles of Association which has the effect of reducing the rights attributable to holders of a specific class shall be subject to the approval of the meeting of holders of such class.

### Conditions under which meetings are held

Annual General Meetings and extraordinary General Meetings of Shareholders shall be convened by public notice. Notice must be given no later than 42 days prior to the date of the meeting. The notice must contain a summary agenda and indicate the place where the complete agenda together with the documents pertaining to the agenda may be obtained. The agenda is also sent to shareholders registered with the Company Register. New York Registry shareholders or their brokers receive a proxy solicitation notice.

For admittance to and voting at the meeting, shareholders must produce evidence of their shareholding as of the record date. The Dutch law determines that the record date is 28 days prior to the General Meeting of Shareholders. Shareholders must notify Aegon of their intention to attend the meeting.

### Limitation on the right to own securities

There are no limitations, either under the laws of the Netherlands or in Aegon's Articles of Association, on the rights of non-residents of the Netherlands to hold or vote Aegon common shares or common shares B.

### Provisions that would have the effect of delaying a change of control

A resolution of the General Meeting of Shareholders to suspend or dismiss a member of the Executive Board or a member of the Supervisory Board, other than pursuant to a proposal by the Supervisory Board, shall require at least two-thirds of the votes cast representing more than one-half of the issued capital.

In the event a Special Cause occurs (such as the acquisition of 15% of Aegon's voting shares, a tender offer for Aegon's shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging Aegon will be entitled to exercise its full voting rights of one vote per each common share B for up to six months per Special Cause, thus increasing its current voting rights to 32.6%.

### Threshold above which shareholder ownership must be disclosed

There are no such provisions in the Articles of Association. Dutch law requires public disclosure with the Authority for Financial Markets with respect to the ownership of listed shares when the following thresholds are met: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

### Material differences between Dutch law and US law with respect to the items above

Reference is made to the paragraph 'Differences in company law practices for domestic companies' included in the Corporate Governance section of this Annual Report (see page 120).

### Special conditions governing changes in the capital

There are no conditions more stringent than what is required by law.

## Material contracts

There are no material contracts.

## Exchange controls

There are no legislative or other legal provisions currently in force in the Netherlands or arising under Aegon's Articles of Association restricting remittances to holders of Aegon's securities that are not resident in the Netherlands. Cash dividends payable in euros on Aegon's common shares may be officially transferred from the Netherlands and converted into any other convertible currency.

## Taxation

### i Certain Netherlands tax consequences for holders of shares

The following section outlines certain material Netherlands tax consequences of the acquisition, holding, redemption and disposal of Aegon common shares, but does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant. This section is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in Aegon common shares.

This section is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date hereof, and it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This section does not address the Netherlands corporate and individual income tax consequences for:

i. Investment institutions *(fiscale beleggingsinstellingen)*;
ii. Pension funds, exempt investment institutions *(vrijgestelde beleggingsinstellingen)* or other entities that are exempt from Netherlands corporate income tax;
iii. Corporate holders of Aegon common shares, the shareholding of which qualifies for the participation exemption *(deelnemingsvrijstelling)* of the Netherlands Corporate Income Tax Act 1969 *(Wet op de vennootschapsbelasting 1969)* or would qualify for the participation exemption had the corporate holders of the Aegon common shares been resident in the Netherlands. Generally speaking, a shareholding is considered to qualify as a participation for the participation exemption if it represents an interest of 5% or more of the nominal paid-up share capital;
iv. Holders of Aegon common shares holding a substantial interest *(aanmerkelijk belang)* or deemed substantial interest *(fictief aanmerkelijk belang)* in Aegon and holders of Aegon common shares of whom a certain related person holds a substantial interest in Aegon. Generally speaking, a substantial interest in Aegon arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5% or more of the total of capital issued by Aegon or 5% or more of the issued capital of a certain class of Aegon shares, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit-sharing rights in Aegon;
v. Persons to whom the Aegon common shares and the income from the Aegon common shares are attributed based on the separated private assets *(afgezonderd particulier vermogen)* provisions of the Netherlands Income Tax Act 2001 *(Wet inkomstenbelasting 2001)*;
vi. Entities which are resident in Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba, to which permanent establishment or permanent representative the Aegon common shares are attributable;
vii. Holders of Aegon common shares which are not considered the beneficial owner *(uiteindelijk gerechtigde)* of these shares or of the benefits derived from or realised in respect of the Aegon common shares; and
viii. Individuals to whom Aegon common shares or the income therefrom are attributable to employment activities which are taxed as employment income in the Netherlands.

Where this section refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom.

#### Dividend withholding tax

##### Withholding requirement

Aegon is required to withhold 15% Netherlands dividend withholding tax in respect of dividends paid on its common shares. Netherlands dividend withholding tax will be withheld from the gross dividends paid on the Aegon common shares. In the Netherlands Dividend Withholding Tax Act 1965 (Wet op de dividendbelasting 1965), dividends are defined as the proceeds from shares, which include:

i. Direct or indirect distributions of profit, regardless of their name or form;
ii. Liquidation proceeds, proceeds on redemption of Aegon common shares and, as a rule, the consideration for the repurchase of its own common shares by Aegon in excess of the average paid-in capital recognised for Netherlands dividend withholding tax purposes, unless a particular statutory exemption applies;
iii. The nominal value of new common shares issued to a holder of Aegon common shares or an increase of the nominal value of Aegon common shares, except insofar as the (increase in the) nominal value of Aegon common shares is funded out of its paid-in capital as recognized for Netherlands dividend withholding tax purposes; and
iv. Partial repayments of paid-in capital recognised for Netherlands dividend withholding tax purposes, if and to the extent there are qualifying profits (*zuivere winst*), unless Aegon's General Meeting of Shareholders has resolved in advance to make such repayment and provided that the nominal value of Aegon common shares concerned has been reduced by an equal amount by way of an amendment of the Articles of Association. The term 'qualifying profits' includes anticipated profits that have yet to be realized.

### Residents of the Netherlands

If a holder of Aegon common shares is a resident, or deemed to be a resident of the Netherlands for Netherlands corporate or individual income tax purposes, Netherlands dividend withholding tax which is withheld with respect to proceeds from Aegon common shares will generally be creditable for Netherlands corporate income tax or Netherlands income tax purposes.

### Non-residents of the Netherlands

If a holder of Aegon common shares is a resident of a country other than the Netherlands and if a treaty for the avoidance of double taxation with respect to taxes on income is in effect between the Netherlands and that country, and such holder is a resident for the purposes of such treaty, such holder may, depending on the terms of that particular treaty, qualify for full or partial relief at source or for a refund in whole or in part of the Netherlands dividend witholding tax.

A refund of Netherlands withholding dividend tax is available to an entity resident in another EU member state, Norway, Iceland, or Liechtenstein if (i) this entity is not subject to corporate income tax there and (ii) this entity would not be subject to Netherlands corporate income tax, if this entity would be tax resident in the Netherlands for corporate income tax purposes and (iii) this entity is not comparable to an investment institution *(fiscale beleggingsinstelling)* or exempt investment institution *(vrijgestelde beleggingsinstelling)*. Furthermore, a similar refund of Netherlands dividend withholding tax may be available to an entitiy resident in another country, under the additional conditions that (i) the Aegon common shares are considered portfolio investments for purposes of article 63 (taking into account article 64) of the Treaty on the functioning of the European Union and (ii) the Netherlands can exchange information with this other country in line with the international standards for the exchange of information.

A (partial) refund of Netherlands dividend withholding tax is available to a holder of Aegon common shares resident in another EU member state, Norway, Iceland or Liechtenstein if (i) this holder of Aegon common shares is not subject to Netherlands individual income tax or Netherlands corporate income tax with respect to the income from the Aegon common shares and (ii) such Netherlands dividend withholding tax is higher than the Netherlands individual income tax or Netherlands corporate income tax would have been had this holder of Aegon common shares been tax resident in the Netherlands, after taking into account a possible refund based on the Netherlands Dividend Withholding Tax Act 1965 (Wet op de dividendbelasting 1965) or a refund based on a treaty for the avoidance of double taxation with respect to taxes on income, and (iii) no credit based on a treaty for the avoidance of double taxation with respect to taxes on income is granted in the state in which the holder of Aegon common shares is tax resident, for the full amount of Netherlands dividend withholding tax withheld. Furthermore, a similar refund of Netherlands dividend withholding tax may be available to a holder of Aegon common shares resident in another country, under the additional conditions that (i) the Aegon common shares are considered portfolio investments for purposes of article 63 (taking into account article 64) of the Treaty on the functioning of the European Union and (ii) the Netherlands can exchange information with this other country in line with the international standards for the exchange of information.

### US-residents

Residents of the United States that qualify for, and comply with the procedures for claiming benefits under, the Convention between the Kingdom of the Netherlands and the United States of America for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income 1992 (*the US/NL Income Tax Treaty*) may, under various specified conditions, be eligible for a reduction of the Netherlands dividend withholding tax rate from 15% to 5% if the resident of the United States is a company which holds directly at least 10% of the voting power in Aegon. The US/NL Income Tax Treaty provides, subject to certain conditions, for a complete exemption from, or refund of, Netherlands dividend withholding tax for dividends received by exempt pension trusts and exempt organizations, as defined therein.

### Beneficial owner

A recipient of proceeds from Aegon common shares will not be entitled to any exemption, reduction, refund or credit of Netherlands dividend withholding tax if such recipient is not considered to be the beneficial owner of such proceeds. The recipient will not be considered the beneficial owner of these proceeds, if, in connection with such proceeds, the recipient has paid a consideration as part of a series of transactions in respect of which it is likely:

- That the proceeds have in whole or in part accumulated, directly or indirectly, to a person or legal entity that would: (i) as opposed to the recipient paying the consideration, not be entitled to an exemption from dividend withholding tax; or (ii) in comparison to the recipient paying the consideration, to a lesser extent be entitled to a reduction or refund of dividend withholding tax; and
- That such person or legal entity has, directly or indirectly, retained or acquired an interest in Aegon common shares or in profit-sharing certificates or loans, comparable to the interest it had in similar instruments prior to the series of transactions being initiated.

### Netherlands dividend withholding tax upon redistribution of foreign dividends

Aegon must pay to the Dutch tax authorities all Netherlands dividend withholding tax it withholds on dividends it distributed with respect to the Aegon common shares. Provided certain conditions are met, Aegon may apply a reduction with respect to the withholding tax that it has to pay to the Dutch tax authorities. This reduction can be applied if Aegon distributes dividends that stem from dividends Aegon itself has received from certain qualifying non-Netherlands subsidiaries, provided these dividends received by Aegon are exempt from Dutch corporate income tax and were subject to a withholding tax of at least 5% upon distribution to Aegon. The reduction is applied to the Netherlands dividend withholding tax that Aegon must pay to the Netherlands tax authorities and not to the amount of the Netherlands dividend withholding tax that Aegon must withhold. The reduction is equal to the lesser of:

i. 3% of the amount of the dividends distributed by Aegon that are subject to Netherlands dividend withholding tax; and
ii. 3% of the gross amount of the dividends received during a certain period from the qualifying non-Netherlands subsidiaries.

The amount of the above mentioned reduction of the withholding tax will be reduced on a pro rata basis to the extent that Aegon distributes dividends to entities that are entitled to a refund of the Netherlands dividend withholding tax. This reduction does not apply in respect of dividends paid to entities that own less than 5% of the nominal paid-up capital of Aegon.

## Corporate and individual income tax

### Residents of the Netherlands

If a holder of Aegon common shares is a resident or deemed to be a resident of the Netherlands for Netherlands corporate income tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise to which Aegon common shares are attributable, income derived from Aegon common shares and gains realized upon the redemption or disposal of Aegon common shares are generally taxable in the Netherlands (at up to a maximum rate of 25%) under the Netherlands Corporate Income Tax Act 1969 *(Wet op de vennootschapsbelasting 1969)*.

If an individual is a resident or deemed to be a resident of the Netherlands for Netherlands individual income tax purposes, income derived from Aegon common shares and gains realized upon the redemption or disposal of Aegon common shares are taxable at progressive rates (at up to a maximum rate of 52%) under the Netherlands Income Tax Act 2001 *(Wet inkomstenbelasting 2001)* if:

i. The individual is an entrepreneur *(ondernemer)* and has an enterprise to which Aegon common shares are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise *(medegerechtigde)*, to which enterprise Aegon common shares are attributable; or
ii. Such income or gains qualify as income from miscellaneous activities *(resultaat uit overige werkzaamheden)*, which includes but is not limited to activities with respect to Aegon common shares that exceed regular, active portfolio management *(normaal, actief vermogensbeheer)*.

If neither condition (i) nor condition (ii) above applies to the holder of the Aegon common shares, taxable income with regard to the Aegon common shares must be determined on the basis of a deemed return on income from savings and investments *(sparen en beleggen)*, rather than on the basis of income actually received or gains actually realized. This deemed return on income from savings and investments is fixed at percentage of the individual's yield basis *(rendementsgrondslag)* at the beginning of the calendar year (1 January), insofar as the individual's yield basis exceeds a certain threshold *(heffingsvrij vermogen)*. The individual's yield basis is determined as the fair market value of certain qualifying assets held by the holder of Aegon common shares less the fair market value of certain qualifying liabilities on 1 January. The fair market value of Aegon common shares will be included as an asset in the individual's yield basis. The deemed return percentage to be applied to the yield basis increases progressively depending on the amount of the yield basis. The deemed return on income from savings and investments is taxed at a rate of 30%.

### Non-residents of the Netherlands

If a person is neither a resident nor is deemed to be a resident of the Netherlands for Netherlands corporate or individual income tax purposes, such person is not subject to Netherlands income tax in respect of income derived from Aegon common shares and gains realized upon the redemption or disposal of Aegon common shares, except if:

i. The person is not an individual and (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or a permanent representative Aegon common shares are attributable, or (2) is, other than by way of securities, entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise Aegon common shares are attributable. This income and these gains are subject to Netherlands corporate income tax at up to a maximum rate of 25%;

ii. The person is an individual that (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative Aegon common shares are attributable, or (2) realises income or gains with respect to Aegon common shares that qualify as income from miscellaneous activities *(resultaat uit overige werkzaamheden)* in the Netherlands which include activities with respect to Aegon common shares that exceed regular, active portfolio management *(normaal, actief vermogensbeheer)*, or (3) is, other than by way of securities, entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands and to which enterprise Aegon common shares are attributable. Income and gains derived from Aegon common shares as specified under (1) and (2) by an individual are subject to individual income tax at up to a maximum rate of 52%. Income derived from a share in the profits of an enterprise as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under 'Residents of the Netherlands'). The fair market value of the share in the profits of the enterprise (which includes Aegon common shares) will be part of the individual's Netherlands yield basis.

## Gift and inheritance tax

### Residents of the Netherlands

Generally, gift tax *(schenkbelasting)* or inheritance tax *(erfbelasting)* will be due in the Netherlands in respect of the acquisition of Aegon common shares by way of a gift by, or on behalf of, or on the death of, a holder of Aegon common shares that is a resident or deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956 *(Successiewet 1956)* at the time of the gift or his or her death. A gift made under a condition precedent is for the purposes of the Netherlands Gift and Inheritance Tax Act 1956 deemed to be made at the time the condition precedent is fulfilled and is subject to gift tax if the donor is, or is deemed to be, a resident of the Netherlands at that time.

A holder of Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956 if he or she has been resident in the Netherlands and dies or makes a gift within ten years after leaving the Netherlands. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956 if he or she has been resident in the Netherlands and makes a gift within a twelve-month period after leaving the Netherlands. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

### Non-residents of the Netherlands

No gift or inheritance tax will arise in the Netherlands in respect of the acquisition of Aegon common shares by way of a gift by, or as a result of the death of, a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956, However, inheritance tax will be due in the case of a gift of Aegon common shares by, or on behalf of, a holder who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956, but such holder dies within 180 days after the date of the gift, and at the time of his or her death is a resident or deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956. A gift made under a condition precedent is deemed to be made at the time the condition precedent is fulfilled.

### The proposed financial transactions tax

The European Commission has published a proposal for a Directive for a common financial transactions tax (FTT) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States). However, Estonia has stated that it will not participate.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Aegon common shares (including secondary market transactions) in certain circumstances.

Under the current proposals, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Aegon common shares where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, 'established' in a participating Member State in a broad range of circumstances, including (1) by transacting with a person established in a participating Member State or (2) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States and is subject to legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Aegon common shares are advised to seek their own professional advice in relation to the FTT.

### Value added tax

In general, no value added tax will arise in respect of payments in consideration for the issue of Aegon common shares or in respect of a cash payment made under Aegon common shares, or in respect of a transfer of Aegon common shares.

### Other taxes and duties

No registration tax, customs duty, transfer tax, stamp duty, capital tax or any other similar documentary tax or duty will be payable in the Netherlands by a holder of Aegon common shares in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Aegon common shares.

## ii Taxation in the United States

This section describes certain US Federal income tax consequences to beneficial holders of common shares that are held as capital assets. This section does not address all US Federal income tax matters that may be relevant to a particular holder. Each investor should consult their tax advisor with respect to the tax consequences of an investment in the common shares. This section does not address tax considerations for holders of common shares subject to special tax rules including, without limitation, the following:

- Financial institutions;
- Insurance companies;
- Dealers or traders in securities or currencies;
- Tax-exempt entities; and
- Regulated investment companies;

- Persons that will hold the common shares as part of a 'hedging' or 'conversion' transaction or as a position in a 'straddle' or as part of a 'synthetic security' or other integrated transaction for US Federal income tax purposes;
- Holders that own (or are deemed to own for US Federal income tax purposes) 10% or more of the voting shares of Aegon;
- Partnerships or pass-through entities or persons who hold common shares through partnerships or other pass-through entities; and
- Holders that have a 'functional currency' other than the US dollar.

Further, this section does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of common shares. This section also does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the Federal income tax laws of the US Federal government.

This section is based on the US Internal Revenue Code of 1986, as amended, US Treasury regulations and judicial and administrative interpretations, in each case as in effect and available on the date of this Annual Report. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this section, a 'US holder' is a beneficial owner of common shares that is, for US Federal income tax purposes:

- A citizen or individual resident of the United States;
- A corporation created or organized in or under the laws of the United States or any state of the United States (including the District of Columbia);
- An estate, the income of which is subject to US Federal income taxation regardless of its source; or
- A trust, if a court within the United States is able to exercise primary supervision over its administration and one or more US persons have the authority to control all of the substantial decisions of such trust.

A non-US holder is a beneficial owner of common shares that is not a US holder.

### Tax consequences to US holders

#### Distributions

The gross amount of any distribution (including any amounts withheld in respect of Dutch withholding tax) actually or constructively received by a US holder with respect to common shares will be taxable to the US holder as a dividend to the extent of Aegon's current and accumulated earnings and profits as determined under US Federal income tax principles. Such dividends will not qualify for the dividends received deduction otherwise allowable to corporations. Distributions in excess of current and accumulated earnings and profits are treated under US tax law as non-taxable return of capital to the extent of the US holder's adjusted tax basis in the common shares. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the US holder as capital gain from the sale or exchange of property. However, Aegon does not maintain calculations of its earnings and profits under US Federal income tax principles. Therefore, US holders of Aegon shares will generally be taxed on all distributions as dividends, even if some portion of the distributions might otherwise be treated as a non-taxable return of capital or as capital gain if the amount of

US earnings and profits was known. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution.

Certain 'qualified dividend income' received by individual US holders is taxed at a maximum income tax rate of 20% under current law. Only dividends received from US corporations or from a 'qualified foreign corporation' and on shares held by an individual US holder for a minimum holding period (generally, 61 days during the 121-day period beginning 60 days before the ex-dividend date) can qualify for this reduced rate. Aegon is eligible for benefits under the comprehensive income tax treaty between the Netherlands and the US; therefore, Aegon should be considered a 'qualified foreign corporation' for this purpose. Accordingly, dividends paid by Aegon to individual US holders on shares held for the minimum holding period may qualify for a reduced income tax rate. Each US holder should consult their tax advisor regarding the applicable tax rate.

In addition, US holders receiving dividends may be subject to a net investment income tax (NIIT). The NIIT is a 3.8% tax on the lesser of net investment income or the amount of modified adjusted gross income (MAGI) that is over a threshold amount based on filing status (USD 250,000 for married taxpayers filing jointly). Each US holder should consult their tax advisor regarding applicability of the NIIT.

Distributions paid in currency other than US dollars (a 'foreign currency'), including the amount of any withholding tax thereon, must be included in the gross income of a US holder in an amount equal to the US dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of receipt. This is the case regardless of whether the foreign currency is converted into US dollars. If the foreign currency is converted into US dollars on the date of receipt, a US holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currency received in the distribution is not converted into US dollars on the date of receipt, a US holder will have a basis in the foreign currency equal to its US dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as ordinary income or loss.

Dividends received by a US holder with respect to common shares will be treated as foreign source income for foreign tax credit limitation purposes. Subject to certain conditions and limitations, any Dutch income tax withheld on dividends may be deducted from taxable income or credited against a US holder's Federal income tax liability. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to 'passive category income' and 'general category income'. Dividends distributed by Aegon generally will constitute 'passive category income', or, in the case of certain US holders, 'financial services income', which is treated as general category income. Each US holder should consult their tax advisor regarding the availability of the foreign tax credit under their particular circumstances.

The amount of the qualified dividend income paid by Aegon to a US holder that is subject to the reduced dividend income tax rate and that is taken into account for purposes of calculating the US holder's US foreign tax credit limitation must be reduced by the 'rate differential portion' of such dividend (which, assuming a US holder is in the highest income tax bracket, would generally require a reduction of the dividend amount by approximately 49.49% under current law). Each US holder should consult their tax advisor regarding the implications of the rules relating to qualified dividend income on the calculation of US foreign tax credits under their particular circumstances.

In general, upon making a distribution to shareholders, Aegon is required to remit all Dutch dividend withholding taxes to the Dutch tax authorities. The full amount of the taxes so withheld should (subject to certain limitations and conditions) be eligible for the US holder's foreign tax deduction or credit as described above. Investors are urged to consult their tax advisors regarding the general creditability or deductibility of Dutch withholding taxes.

Aegon generally affords shareholders an option to receive dividend distributions in cash or in stock. A distribution of additional common shares to US holders with respect to their common shares that is made pursuant to such an election will generally be taxable in the same manner as a cash dividend under the rules described above.

### Sale or other disposition of shares

Upon the sale or exchange of common shares, a US holder will generally recognize gain or loss for US Federal income tax purposes on the difference between the US dollar value of the amount realized from such sale or exchange and the tax basis in those common shares. This gain or loss will be a capital gain or loss and will generally be treated as from sources within the United States. Investors should consult their tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that have held the common shares for more than one year) and capital losses (the deductibility of which is subject to limitations).

In addition, US holders with capital gains may be subject to a NIIT. The NIIT is a 3.8% tax on the lesser of net investment income or the amount of modified adjusted gross income (MAGI) that is over a threshold amount based on filing status (USD 250,000 for married taxpayers filing jointly). Each US holder should consult their tax advisor regarding applicability of the NIIT.

If a US holder receives foreign currency upon a sale or exchange of common shares, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into US dollars on the date received by the US holder, the US holder generally should not be required to recognize any gain or loss on such conversion.

### Passive foreign investment company considerations

Based on the nature of Aegon's gross income, the average value of Aegon's gross assets, and the active conduct of Aegon's insurance business, Aegon does not believe that it could be classified as a Passive Foreign Investment Company (PFIC). If Aegon were treated as a PFIC in any year during which a US holder owns common shares, certain adverse tax consequences could apply. Investors should consult their tax advisors with respect to any PFIC considerations.

### Tax consequences to non-US holders

A non-US holder generally will not be subject to US Federal income tax on dividends received on common shares or on any gain realized on the sale or exchange of common shares unless the gain is connected with a trade or business that the non-US holder conducts in the United States or unless the non-US holder is an individual, such holder was present in the United States for at least 183 days during the year in which such holder disposes of the common shares, and certain other conditions are satisfied. Non-US holders should consult their tax advisors with respect to the US Federal income tax consequences of dividends received on, and any gain realized from the sale or exchange of, the common shares.

### Backup withholding and information reporting

Backup withholding and information reporting requirements may apply to certain payments on the common shares and to proceeds of a sale or redemption of the common shares to US holders made within the United States. Aegon, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if a US holder fails to furnish the US holder's taxpayer identification number, fails to certify that such US holder is not subject to backup withholding, or fails to otherwise comply with the applicable requirements of the backup withholding rules. Certain US holders are not subject to the backup withholding and information reporting requirements.

Non-US holders that provide the required tax certifications of exempt or foreign status will generally be exempt from US information reporting requirements and backup withholding. However, sales proceeds a non-US holder receives on a sale of common shares through a broker may be subject to information reporting and backup withholding if the non-US holder is not eligible for an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a US holder or a non-US holder generally may be claimed as a credit against such holder's US Federal income tax liability provided that the required information is furnished to the US Internal Revenue Service (IRS). Investors should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. Non-US holders should consult their tax advisors concerning the applicability of the information reporting and backup withholding rules.

Individual US holders may be required to report to the IRS certain information with respect to their beneficial ownership of certain foreign financial assets, such as the common shares, if the aggregate value of such assets exceeds USD 50,000 and the assets are not held through a US financial institution. US holders who fail to report required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of the information reporting rules to their particular circumstances.

## Principal accountant fees and services

PricewaterhouseCoopers Accountants N.V. (PwC) has served as Aegon's independent public accountant for each of the years in the three-year period ended December 31, 2016, for which audited financial statements appear in this Annual Report.

The following table presents the aggregate fees for services rendered by PwC in 2016, 2015 and 2014.

### Fees independent public accountant

| In million EUR | **2016** | 2015 | 2014 |
|---|---|---|---|
| Audit fees | 27 | 20 | 17 |
| Audit-related fees | 3 | 2 | 1 |
| | **30** | **22** | **18** |

Audit fees consist of fees billed for the annual financial statement audit (including required quarterly reviews), subsidiary audits, equity investment audits and other procedures required to be performed by the independent auditor to be able to form an opinion on Aegon's consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review. They also include fees billed for other audit services, which are those services that only the external auditor reasonably can provide, and include statutory audits or financial audits for subsidiaries or affiliates of the Company and services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

Audit-related fees consist of fees billed for audit-related services including assurance and related services that are reasonably related to the performance of the audit or review of Aegon's financial statements or that are traditionally performed by the independent auditor. Audit-related services include, among others, assurance services to report on internal controls for third parties, due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations related to accounting, financial reporting or disclosure matters not classified as 'Audit services'; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; financial audits of employee benefit plans; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements.

All other fees include fees billed for permissible non-audit services that Aegon believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

### Audit Committee pre-approval policies and procedures

Aegon's Audit Committee is responsible, among other matters, for the oversight of the external auditor. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services provided by Aegon's independent auditors (the Pre-approval Policy).

Under the Pre-approval Policy, proposed services either:

- May be pre-approved by the Audit Committee without consideration of specific case-by-case services (general pre-approval); or
- Require the specific pre-approval of the Audit Committee (specific pre-approval). Appendices to the Pre-approval Policy (that are adopted each year) set out the audit, audit-related, tax and other services that have received general pre-approval of the Audit Committee. All other audit, audit-related, tax and other services must receive specific pre-approval from the Audit Committee.

For the period 2014 to 2016, all services provided to Aegon by its independent public accountant were pre-approved by the Audit Committee in accordance with the Pre-approval Policy.

## Purchases of equity securities by the issuer and affiliated purchasers

| Period | Total number of shares purchased[1)] | Average price paid per share in EUR | Total number of shares purchased as part of publicly announced plans or programs [2), 3)] | Maximum number of shares that may yet be purchased under the plans or programs at end of month [2), 3)] |
|---|---|---|---|---|
| January 1 - 31, 2016 | 8,930,367 | 5.28 | 8,923,109 | 32,159,574 |
| February 1 - 29, 2016 | 17,148,358 | 4.61 | 17,141,800 | 15,017,774 |
| March 1 - 31, 2016 | 15,022,807 | 4.92 | 15,017,774 | - |
| April 1 - 30, 2016 | 20,322,424 | 5.00 | 20,318,032 | 21,715,820 |
| May 1 - 31, 2016 | 21,719,410 | 4.53 | 21,715,820 | - |
| June 1 - 30, 2016 | 3,944 | - | - | - |
| July 1 - 31, 2016 | 18,302,751 | 3.44 | 18,298,451 | 10,960,211 |
| August 1 - 31, 2016 | 10,961,841 | 3.61 | 10,960,211 | - |
| September 1 - 30, 2016 | 1,070 | - | - | - |
| October 1 - 31, 2016 | 22,109,387 | 3.77 | 22,108,504 | 8,656,720 |
| November 1 - 30, 2016 | 8,657,521 | 4.03 | 8,656,720 | - |
| December 1 - 31, 2016 | 662 | - | - | - |
| **Total** | **143,180,542** | | **143,140,421** | **-** |

[1] The shares have been purchased as part of a share purchase program, to neutralize the dilution effect of issued stock dividends and agent-related incentive programs. Excluding Aegon shares purchased by index funds controlled by Aegon. Such purchases are made to the extent necessary to maintain a basket of securities within the relevant fund reflecting the underlying index.

[2] On July 4, 2016, a repurchase program to neutralize the dilutive effect of the 2015 final dividend paid in shares was announced. As a consequence approximately 29.3 million shares have been repurchased between July 4 and August 12, 2016. Subsequently, on October 3, 2016, a repurchase program to neutralize the dilutive effect of the 2016 interim dividend paid in shares was announced. As a consequence approximately 30.8 million shares have been repurchased between October 3 and November 11, 2016.

[3] On January 13, 2016, a share buyback program of EUR 400 million worth of common shares in 2016 was announced. The first tranche of EUR 200 million was completed on March 31, 2016. The second tranche of EUR 200 million was completed on May 19, 2016.

## Quarterly results – unaudited

| | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | First quarter | Second quarter | Third quarter | Fourth quarter | Full Year | First quarter | Second quarter | Third quarter | Fourth quarter | Full Year |
| *Underlying earnings before tax* | | | | | | | | | | |
| Life | 192 | 143 | 178 | 266 | 779 | 127 | 228 | 228 | 191 | 774 |
| Individual Savings & Retirement | 125 | 131 | 142 | 136 | 534 | 170 | 155 | 147 | 132 | 604 |
| Pensions | 122 | 145 | 136 | 153 | 555 | 123 | 105 | 108 | 104 | 440 |
| Non-life | 6 | 5 | 3 | 21 | 34 | 5 | 8 | 4 | 1 | 17 |
| Asset Management | 45 | 37 | 32 | 35 | 149 | 45 | 47 | 40 | 38 | 170 |
| Other | (28) | (25) | (30) | (56) | (139) | (38) | (38) | (32) | (31) | (139) |
| **Underlying earnings before tax** | **462** | **435** | **461** | **554** | **1,913** | **432** | **505** | **495** | **435** | **1,867** |
| Fair value items | (358) | (358) | 84 | (13) | (645) | (159) | (293) | (161) | (159) | (771) |
| Gains / (losses) on investments | 54 | 229 | 21 | 36 | 340 | 119 | 134 | 36 | 58 | 346 |
| Net impairments | (36) | (23) | 6 | (1) | (54) | (11) | 7 | (12) | 64 | 49 |
| Other income / (charges) | (6) | (656) | (72) | (38) | (771) | (1) | (11) | (988) | (1,181) | (2,180) |
| Run-off businesses | 28 | 18 | 8 | (1) | 54 | 16 | 17 | 35 | 21 | 88 |
| **Income before tax** | **145** | **(355)** | **510** | **536** | **836** | **396** | **359** | **(595)** | **(762)** | **(601)** |
| Income tax | (1) | (30) | (152) | (66) | (250) | (107) | (40) | 44 | 182 | 78 |
| **Net income** | **143** | **(385)** | **358** | **470** | **586** | **289** | **319** | **(551)** | **(580)** | **(523)** |
| **Net underlying earnings** | **352** | **312** | **349** | **471** | **1,483** | **315** | **398** | **387** | **381** | **1,481** |
| *Underlying earnings before tax* | | | | | | | | | | |
| Americas | 283 | 270 | 307 | 388 | 1,249 | 290 | 358 | 339 | 291 | 1,278 |
| Europe | 169 | 160 | 151 | 174 | 655 | 141 | 139 | 137 | 142 | 559 |
| Asia | - | 1 | 6 | 13 | 21 | (3) | 2 | 18 | 3 | 20 |
| Asset Management | 45 | 37 | 32 | 35 | 149 | 45 | 47 | 40 | 38 | 170 |
| Holding and other activities | (36) | (33) | (35) | (57) | (162) | (42) | (41) | (38) | (39) | (161) |
| **Underlying earnings before tax** | **462** | **435** | **461** | **554** | **1,913** | **432** | **505** | **495** | **435** | **1,867** |
| **Gross deposits (on and off balance sheet)** | **30,078** | **22,953** | **24,669** | **22,625** | **100,325** | **19,963** | **18,139** | **20,756** | **23,761** | **82,618** |
| **Net deposits (on and off balance sheet)** | **7,615** | **1,125** | **(2,539)** | **(3,492)** | **2,709** | **7,266** | **2,777** | **3,771** | **2,564** | **16,378** |
| *New life sales* | | | | | | | | | | |
| Life single premiums | 610 | 489 | 479 | 476 | 2,054 | 959 | 616 | 686 | 561 | 2,823 |
| Life recurring premiums annualized | 205 | 195 | 171 | 192 | 764 | 203 | 212 | 190 | 216 | 822 |
| **Total recurring plus 1/10 single** | **266** | **244** | **219** | **240** | **969** | **299** | **274** | **259** | **273** | **1,104** |
| New premium production accident and health insurance | 262 | 199 | 198 | 201 | 860 | 307 | 228 | 212 | 213 | 960 |
| New premium production general insurance | 24 | 27 | 20 | 23 | 94 | 22 | 20 | 18 | 25 | 84 |

# Glossary

**Accounting Consolidation** is the default method for calculating the Group solvency position. With this consolidation method, diversification benefits in the calculation of capital requirements are allowed.

**Acquisition date** is the date on which the acquirer effectively obtains control of the acquiree. In most cases this includes at least the transfer of risks and rewards related to the acquired business or assets/liabilities.

**Actuarial funding** enables a life insurance company to reduce the size of the unit reserves it holds for unit-linked business to reflect some or all of the unit-linked charges it expects to receive in the future from the units nominally allocated. Actuarial funding is used on those contracts that have surrender penalties and the Company will hold a minimum of the surrender value at all times.

**Actuarial gains and losses** relate to the accounting for post-employment benefit plans. They comprise the effects of experience adjustments and changes in assumptions used to determine the cost of a plan.

**Alt-A mortgages** relates to a type of US residential mortgage which are securitized home equity loans. Typical Alt-A borrower has a credit score high enough to obtain an: 'A'standing. Alt-A mortgages are primarily backed by loans with fixed interest rates for the entire term of the loan.

**Aggregation** is the methodology by which capital requirements are calculated across different risk groupings, allowing for diversification benefit between the groupings.

**Amortized cost** is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

**Asset-Backed Securities (ABS)** are securities whose value and income payments are derived from and collateralized (or 'backed') by a specified pool of underlying assets.

**Assets held by long-term employee benefit funds** are part of plan assets. These are assets (other than non-transferable financial instruments issued by the reporting entity) that:

- Are held by an entity that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- Are available to be used only to pay or fund employee benefits and are not available to the reporting entity's own creditors.

**Bifurcation** is the measurement and presentation of embedded derivatives separate from the host contracts, as if they were stand-alone derivative financial instruments.

**Binomial option pricing model** uses a binomial lattice that represents possible paths that might be followed by the underlying asset's price over the life of the option, for a given number of time steps between valuation date and option expiration. Each node in the lattice represents a possible price of the underlying asset, at a particular point in time. The valuation process is iterative; it starts at each final node and then works backwards through the lattice to the first node, which is the valuation date, where the calculated result is the value of the option.

**Business combination** is the bringing together of separate entities or operations of entities into one reporting entity. This can be realized through a purchase transaction or by means of a merger. A business combination involving entities (or operations of entities) under common control is a business combination in which all of the combining entities (or operations of entities) ultimately are controlled by the same party or parties both before and after the combination, and that control is not transitory.

**Capital funding** includes debt securities that are issued for general corporate purposes and for capitalizing our business units. Capital funding is part of the Company's total capitalization that is used for financing our subsidiaries and the cash held at the holding company.

**Capitalization** is the recognition of a cost as part of the cost of an asset on the statement of financial position.

**Cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Cedant** is the policyholder under a reinsurance contract.

**Claims settlement expenses** are costs incurred in settling a claim. These costs include internal administration and payout costs, but also such items as attorney's fees and investigation expenses.

**Collateral** is an asset pledged by a borrower to secure a loan and is subject to seizure in the case of default.

**Collateralized Debt Obligation (CDO)** isa type of asset-backed security which provides investors exposure to the credit risk of a pool of fixed income assets.

**Commercial Mortgage-Backed Securities (CMBS)** is a type of mortgage-backed security that is secured by the loan on a commercial property.

**Compound financial instruments** are financial instruments that, from the issuer's perspective, contain both a liability and an equity element.

**Constructive obligation** is an obligation that derives from an entity's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities, and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Credit risk** is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

**Currency exchange rate risk** is a market risk, namely the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

**Debt securities** are interest-paying bonds, debentures, notes, or money market instruments that are issued by governments or corporations. Debt securities are issued with a promise of repayment on a certain date at a specified rate of interest**.**

**Deduction & Aggregation** is the alternate method for calculating group solvency that aggregates an entity without allowing for diversification between the entity that is aggregated using D&A and those that are aggregated using Accounting Consolidation.

**Deferred tax assets** are amounts of income taxes recoverable in future periods in respect of deductible temporary differences; the carryforward of unused tax losses; and the carryforward of unused tax credits.

**Deferred tax liabilities** are amounts of income taxes payable in future periods in respect of taxable temporary differences.

**Defined benefit obligation** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

**Defined benefit plans** are post-employment benefit plans other than defined contribution plans.

**Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Deferred Policy Acquisition Cost (DPAC)** – are the variable costs related to the acquisition or renewal of insurance contracts and investment contracts with discretionary participation features.

**Deposit accounting method** includes amounts charged and paid to customers directly into the financial liability and not through the income statement as premium income and claims.

**Derecognition** is the removal of a previously recognized asset or financial liability from an entity's statement of financial position.

**Derivatives** are financial instruments whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

**Discretionary participation feature** is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and

That are contractually based on:

- The performance of a specified pool of contracts or a specified type of contract;
- Realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
- The profit or loss of the Company, fund or other entity that issues the contract.

**Diversification** is the general concept of reducing the total risk of a portfolio of assets and/or liabilities by spreading it across a mix of different risk exposures. Risk reduction occurs due to the less than perfect correlation among the individual risk exposures in the portfolio, meaning risks will not materialize all at the same time.

**Effective interest rate method** is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

**Embedded derivative** is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a derivative.

**Equity instruments** are financial instruments issued by the Group that are classified as equity if they evidence a residual interest in the assets of the Group after deducting all of its liabilities.

**Equity method** is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**Equity volatility** is the relative rate at which the price of equity changes.

**Exchange differences** are differences resulting from translating a given number of units of one currency into another currency at different exchange rates.

**Fee-based earnings** refers to the excess of fees earned over expenses. This is typically associated with pensions business, asset management business, distribution business, variable annuities and unit linked products.

**Finance lease** is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

**Financial asset** is any asset that is:
- Cash;
- An equity instrument of another entity;
- A contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another party under conditions that are potentially favorable; or
- A contract that will or may be settled in the entity's own equity instruments; and is
- A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

**Financial instrument** is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial liability** is any liability that is:
- A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- A contract that will or may be settled in the entity's own equity instruments; and is
- A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

**Financial risks** are risks of a possible future change in one or more of the following variables: a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

**Firm commitment** is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

**Fixed charge coverage** is a measure of Aegon's ability to service its debt and is measuring the ratio of underlying earnings before tax to Fixed Charges (interest expenses, coupons on perpetual securities and preferred dividend).

**Foreign currency** is a currency other than the functional currency of an entity within the Group.

**Foreign operation** is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity within the Group, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

**Functional currency** is the currency of the primary economic environment in which an entity within the Group operates.

**Fungibility & Transferrability** is the ability to up-stream and transfer capital between jurisdictions. This ability differs between jurisdictions as it depends on the legal framework of each jurisdiction.

**General account investments** are investments of which the financial risks are not borne by the policyholder.

**Goodwill** is the amount of future economic benefits arising from assets that are not capable of being individually identified and separately recognized as an asset in a business combination.

**Government exposures** relates to government issued securities including Dutch Government bonds and US Treasury, agency and state bonds.

**Guaranteed benefits** are payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

**Hedge effectiveness** is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

**Incremental cost** is one that would not have been incurred if the entity had not acquired, issued or disposed of a financial instrument.

**Insurance asset** is an insurer's contractual right under an insurance contract.

**Insurance contract** is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

**Insurance liability** is an insurer's contractual obligation under an insurance contract.

**Insurance risk** is a risk, other than financial risk, transferred from the holder of a contract to the issuer.

**Interest rate risk** is a market risk, namely the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

**Joint control** is the contractually agreed sharing of control over an economic activity, which exists when the strategic and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

**Liability adequacy testing** is an assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred policy acquisition costs or related intangible assets decreased) based on a review of future cash flows.

**Liquidity risk** is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

**Loss absorbing capacity of deferred taxes** is a loss compensating effect of taxes taken into account in the solvency capital requirement.

**Master netting agreement** is an agreement providing for an entity that undertakes a number of financial instrument transactions with a single counterparty to make a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any contract.

**Matching adjustment** will adjust the discount rate applied in the valuation of predictable liabilities which are cashflow matched using fixed income assets. The predictability of the portfolio means that matching assets can be held to maturity and that the insurer is consequently not exposed to price movements, only to the risk of default.

**Minimum capital requirement** is the absolute minimum level of capital an insurance company must hold in excess of its Technical Provisions under Solvency II.

**Monetary items** are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

**Monoline insurer** is an insurance company which issues types of insurance for securities and bonds to cover the interest and principal when an issuer defaults.

**Negative amortization mortgages** are loans whereby the payment made by the borrower may be less than the accrued interest due and the difference is added to the loan balance. When the accrued balance of the loan reaches the negative amortization limit (typically 110% to 125% of the original loan amount), the loan recalibrates to a fully amortizing level and a new minimum payment amount is determined.

**Non-controlling interests** are that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

**Onerous contracts** are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**Operational funding** includes debt securities that are issued for the financing of dedicated pools of assets. These assets are either legally segregated or tracked as separate portfolios.

**Operating expenses** are all expenses associated with selling and administrative activities (excluding commissions) after reallocation of claim handling expenses to benefits paid.

**Partial Internal Model** is a combination of a Standard Formula and Internal Model, used to calculated the Solvency II capital requirement.

**Past service cost** is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits.

**Plan assets** are assets held by a long-term employee benefit fund and qualifying insurance policies.

**Policy acquisition costs** are the expenses incurred in soliciting and placing new business as well as renewal of existing business. It includes agent's commissions, underwriting expenses, medical and credit report fees, marketing expenses and all other direct and indirect expenses of the departments involved in such activities.

**Policyholder** is a party that has a right to compensation under an insurance contract if an insured event occurs.

**Presentation currency** is the currency in which the financial statements are presented.

**Price risk** is a market risk, namely the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

**Private loan** is a non-derivative financial asset with a fixed interest rate and a maturity date, which is not bought in an active market but negotiated between the two parties involved. Private loans are not embodied in securities. When a private loan takes the form of a private placement of bonds or other investments directly to an institutional investor like an insurance company, it has more the character of a bond loan and such financial instruments are classified as available-for-sale investments rather than as loans and receivables.

**Projected unit credit method** is an actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

**Qualifying insurance policies** are a component of plan assets. These are insurance policies issued by an insurer that is not a related party of the reporting entity, if the proceeds of the policies:

- Can be used only to pay or fund employee benefits under a defined benefit plan; and
- Are not available to the reporting entity's own creditors.

**Real estate investments foreclosed** are real estate investments purchased through foreclosure on the mortgage. Such purchases are not accounted for as mortgages, but as real estate investments until they can be sold at a better price than at the foreclosure. Meanwhile they yield a rental income.

**Realizable value** is the amount of cash or cash equivalents that could currently be obtained by selling an asset in an orderly disposal.

**Recognition** is the process of incorporating in the statement of financial position or income statement an item that meets the definition of an element and satisfies the following criteria for recognition:

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item has a cost or value that can be measured with reliability.

**Reinsurance assets** are a cedant's net contractual rights under a reinsurance contract.

**Reinsurance contract** is an insurance contract issued by one insurer to compensate another insurer for losses on one or more contracts issued by the cedant.

**Renewal of a contract** is when a policyholder takes whatever action is required, typically payment of a premium, in order to maintain benefits under the contract.

**Repurchase agreement** is a sale of securities with an agreement to buy back the securities at a specified time and price.

**Residential Mortgage Backed Security (RMBS)** is an asset-backed security that is secured by a mortgage or collection of mortgages.

**Return on plan assets** is the investment income derived from plan assets, together with realized and unrealized gains and losses on the plan assets less any costs of administering the plan and less any tax payable by the plan itself.

**Reverse repurchase agreement** is a purchase of securities with the agreement to resell them at a later specified date and price.

**Risk Based Capital Company Action Level** is designed primarily for US regulators to identify poorly capitalized companies whose continued operations may be hazardous to policyholders. The insurer's RBC solvency ratio is determined as its 'total adjusted capital' divided by 'authorized control level risk based capital. (ACL)' However, it is industry and rating agency convention to complete and communicate the RBC solvency ratio relative to the 'Company Action Level Risk Based Capital', which is twice the authorized control level.

**Security lending** involves a loan of a security from one party to another.

**Settlement date** is the date that a financial asset is delivered to the entity that purchased it.

**Solvency II** is the fundamental reform of European insurance legislation.

**Solvency capital requirement** is the level of capital an insurance company must hold in excess of its Technical Provisions under Solvency II.

**Spot exchange rate** is the exchange rate for immediate delivery.

**Spread** is the difference between the current bid and the current ask or offered price of a given security.

**Spread earnings** is the difference between the interest earned on investments and the interest credited to policyholders. This is typically associated with traditional type business.

**Standard Formula** is a risk-based approach to the calculation of an insurers solvency capital requirement, prescribed by the regulator.

**Stochastic modeling** is a statistical process that uses probability and random variables to predict a range of probable investment performances.

**Temporary differences** are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base that will reverse over time.

**Trade date** is the date that an entity commits itself to purchase or sell an asset.

**Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

**Transitional measures** allow EEA entities to gradually move to a full implementation of Solvency II over a period of time.

**Trust Pass-Through securities** are securities through which the holders participate in a trust. The assets of these trusts consist of debentures issued by an Aegon Group company.

**Unlocking** of DPAC and VOBA refers to the process of updating the DPAC or the VOBA amortization schedule to reflect changes between the past and current expectations of key assumptions used in the projection of future gross profits.

**Value of Business Acquired (VOBA)** the difference between the fair value and the carrying amount of the insurance liabilities recognized when a portfolio of insurance contracts is acquired (directly from another insurance company or as part of a business combination).

**Volatility adjustment** is a volatility adjustment to the discount rates for calculating technical provisions aims at avoiding pro-cyclical investment behavior of insurers when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The adjustment has the effect of stabilizing the capital resources of insurers and will be calculated by EIOPA.

# Disclaimer

## Cautionary note regarding non-IFRS-EU measures

This document includes the following non-IFRS-EU financial measures: underlying earnings before tax, income tax and income before tax. These non-IFRS-EU measures are calculated by consolidating on a proportionate basis Aegon's joint ventures and associated companies. The reconciliation of these measures to the most comparable IFRS-EU measure is provided in note 5 'Segment information' of this report. Aegon believes that these non-IFRS-EU measures, together with the IFRS-EU information, provide meaningful supplemental information about the underlying operating results of Aegon's business including insight into the financial measures that senior management uses in managing the business.

## Currency exchange rates

This document contains certain information about Aegon's results, financial condition and revenue generating investments presented in USD for the Americas and Asia, and in GBP for the United Kingdom, because those businesses operate and are managed primarily in those currencies. None of this information is a substitute for or superior to financial information about Aegon presented in EUR, which is the currency of Aegon's primary financial statements.

## Forward-looking statements

The statements contained in this document that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: aim, believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, goal, should, would, is confident, will, and similar expressions as they relate to Aegon. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Aegon undertakes no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in forward-looking statements due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

- Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom;
- Changes in the performance of financial markets, including emerging markets, such as with regard to:
  - The frequency and severity of defaults by issuers in Aegon's fixed income investment portfolios;
  - The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in the value of equity and debt securities Aegon holds; and
  - The effects of declining creditworthiness of certain private sector securities and the resulting decline in the value of government exposure that Aegon holds;
- Changes in the performance of Aegon's investment portfolio and decline in ratings of Aegon's counterparties;
- Consequences of a potential (partial) break-up of the euro;
- Consequences of the anticipated exit of the United Kingdom from the European Union;
- The frequency and severity of insured loss events;
- Changes affecting longevity, mortality, morbidity, persistence and other factors that may impact the profitability of Aegon's insurance products;
- Reinsurers to whom Aegon has ceded significant underwriting risks may fail to meet their obligations;
- Changes affecting interest rate levels and continuing low or rapidly changing interest rate levels;
- Changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates;
- Changes in the availability of, and costs associated with, liquidity sources such as bank and capital markets funding, as well as conditions in the credit markets in general such as changes in borrower and counterparty creditworthiness;
- Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;
- Changes in laws and regulations, particularly those affecting Aegon's operations' ability to hire and retain key personnel, taxation of Aegon companies, the products Aegon sells, and the attractiveness of certain products to its consumers;
- Regulatory changes relating to the pensions, investment, and insurance industries in the jurisdictions in which Aegon operates;
- Standard setting initiatives of supranational standard setting bodies such as the Financial Stability Board and the International Association of Insurance Supervisors or changes to such standards that may have an impact on regional (such as EU), national or US federal or state level financial regulation or the application thereof to Aegon, including the designation of Aegon by the Financial Stability Board as a Global Systemically Important Insurer (G-SII);
- Changes in customer behavior and public opinion in general related to, among other things, the type of products Aegon sells, including legal, regulatory or commercial necessity to meet changing customer expectations;
- Acts of God, acts of terrorism, acts of war and pandemics;
- Changes in the policies of central banks and/or governments;
- Lowering of one or more of Aegon's debt ratings issued by recognized rating organizations and the adverse impact such action may have on Aegon's ability to raise capital and on its liquidity and financial condition;
- Lowering of one or more of insurer financial strength ratings of Aegon's insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability and liquidity of its insurance subsidiaries;

- The effect of the European Union's Solvency II requirements and other regulations in other jurisdictions affecting the capital Aegon is required to maintain;
- Litigation or regulatory action that could require Aegon to pay significant damages or change the way Aegon does business;
- As Aegon's operations support complex transactions and are highly dependent on the proper functioning of information technology, a computer system failure or security breach may disrupt Aegon's business, damage its reputation and adversely affect its results of operations, financial condition and cash flows;
- Customer responsiveness to both new products and distribution channels;
- Competitive, legal, regulatory, or tax changes that affect profitability, the distribution cost of or demand for Aegon's products;
- Changes in accounting regulations and policies or a change by Aegon in applying such regulations and policies, voluntarily or otherwise, which may affect Aegon's reported results and shareholders' equity;
- Aegon's projected results are highly sensitive to complex mathematical models of financial markets, mortality, longevity, and other dynamic systems subject to shocks and unpredictable volatility. Should assumptions to these models later prove incorrect, or should errors in those models escape the controls in place to detect them, future performance will vary from projected results;
- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including Aegon's ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
- Catastrophic events, either manmade or by nature, could result in material losses and significantly interrupt Aegon's business; and
- Aegon's failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving and excess capital and leverage ratio management initiatives.

Further details of potential risks and uncertainties affecting Aegon are described in its filings with the Netherlands Authority for the Financial Markets and the US Securities and Exchange Commission, including the Annual Report. These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, Aegon expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Aegon's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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