Our strategy

As we've seen, the environment in which we're operating is changing fast. We've also looked at some of the steps we've taken to adapt. But what's our overall strategy?

We have a very clear ambition: we want to be a leader in our chosen markets. That means being efficient, making the most of our resources, and investing in new growth. Most importantly, it means being close to our customers: providing the right products, investing in distribution, and making sure we have the best possible customer service, so we can help people save and invest for the future. We want to be a company driven by its stated purpose: to help people take responsibility for their financial future.

In recent years, we've brought down costs, reduced financial risk and freed up billions of euros in capital to act as a buffer against very difficult market conditions.

We've also taken a hard look at our businesses. We decided what was important to us, and what was not. We sold off some operations that weren't core or weren't delivering the right returns, and we closed down others. Since 2010, we've made divestments worth more than €3 billion[1]. In the UK, for example, we sold Guardian Assurance. In the US, we sold our reinsurance activities and put our institutional markets division into run-off. Last year, we agreed to sell our life insurance business in Canada and our stake in a joint venture with La Mondiale in France. By the end of 2014, we were allocating 87% of our capital to our core businesses – which is where we see the biggest opportunities for growth.

At the same time, we've also reviewed our products. Some we discontinued. We deliberately slowed sales of fixed annuities in the US, for example. Others we re-priced or revised, like our disability insurance in the Netherlands and some of our universal life products in both Asia and the US. We put more focus on earnings from fees, to lessen our dependence on credit spreads.

Thanks to these changes, we've seen an overall improvement in our financial performance. Our use of capital is more efficient, our operating expenses are down and we've built a strong financial position, which means we're well placed to take advantage of new growth opportunities.

Where do we see these opportunities?
For one, we're investing more in our growth markets like pensions and workplace savings. We're also expanding in the at retirement market in the US, the Netherlands and the UK. We've seen strong growth in the US, for example, in pensions, supplemental healthcare and variable annuities. In Central & Eastern Europe, because of regulatory change, we're switching much of our business from pensions and unit-linked to protection products.

We're also expanding distribution – both through traditional channels like banks and financial intermediaries as well as through new digital technology. We've launched new websites, online platforms and apps. In India, we account for nearly a quarter of the online life insurance market. We have partnerships in place with banks like Barclays in the UK and Banco Santander in Spain and Portugal. Where we can, we're enrolling new brokers, agents and other intermediaries. We're extending workplace distribution through employer pension plans. And, in Central & Eastern Europe, we're investing more in our network of tied agents. In the US, investment in new distribution has helped drive an increase in sales of both variable annuities and mutual funds.

Key to our strategy is making sure we put our customers first. That means focusing on customer loyalty; it means providing products that meet our customers' – and our own – expectations; it also means providing excellent customer service. These are areas where Aegon has made positive changes: we work by market conduct standards, which emphasize the importance of treating customers fairly and providing 'clear, appropriate information'. We've also brought in the Net Promoter Score, which helps us gauge customer loyalty and identify potential areas of improvement. We've made progress, but we recognize there's a lot still to do: customer service and customer loyalty will continue to be at the center of our strategy in the years ahead.

Our strategic objectives

Optimize our portfolio
Making sure we invest in areas that offer strong growth and more attractive returns.

Strengthen customer loyalty
Improving our service to customers, extending our range of products and investing in new distribution.

Pursue operational excellence
Reducing costs, encouraging innovation and making more effective use of our resources.

Empower our employees
Providing the tools and training our employees need to serve our customers and achieve their own professional goals.

1 Please note that this figure includes divestments made in Canada and France, which were expected to close only in 2015.

Our business model

Life insurance & pensions

Customers

We begin with our customers. We think about their requirements, and what they'll need in the years ahead to secure their financial future. Using this information, we develop products and services. We price them by assessing potential risks and other factors such as movements in world financial markets and changes in demographics. Many of our products are designed to last a lifetime.

Sales & distribution

We sell our products either directly to our customers or via brokers, banks and other financial intermediaries. In exchange, these intermediaries generally receive a fee either from us or the customer. As an insurance company, we underwrite the products and services, ensuring that we can manage the risk and have enough in reserve to meet pay-out obligations.

Pay-in phase

Generally, customers make deposits or pay premiums on our products – which we invest so that, when the time comes, we can pay out the expected benefits. For many of our products, the money we receive is spread over a number of years, whereas most marketing and sales costs are immediate. For that reason, these costs are included on our balance sheet and amortized over time.

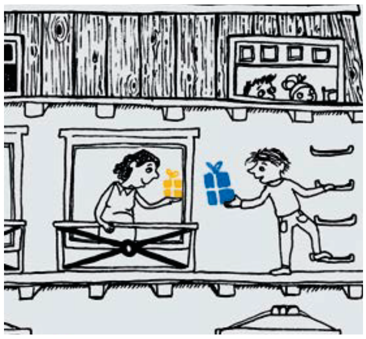
Pay-out phase

Eventually, products such as pensions and annuities mature and enter a pay-out phase. With life insurance, this happens when a claim is made. Beneficiaries tend to receive either a lump sum or a series of regular payments over a specified period of time.

"Our ambition is very clear.
We want to be a leader in our chosen markets."

Two million

We've extended our distribution partnership with Banco Santander to Portugal, giving us access to a potential two million new customers.



Last year we merged two of our divisions in the US to create a new business, Investments & Retirement (I&R). The move brings all our pensions, mutual funds and retirement products under one roof. The new business will serve more than five million Americans, with over $280 billion in assets and savings. Creating a single business should make it easier for our customers. I&R will have a range of products that take the customer to and through retirement. It will also make it easier for us. We've now brought down the number of divisions we have in the US, helping us reduce costs and improve efficiency.

Our ambitions and targets

What are our goals?

For us, being a leader in our chosen markets doesn't necessarily mean being the biggest. We want to be the most recommended among our customers. We also want to be the preferred employer in our industry – because we know the more motivated and engaged our employees, the better our service to customers. In 2010, we backed up this ambition with four strategic objectives, as well as clear performance indicators and a series of financial targets. So, nearly five years on, how close are we to our ambition?

Strategic objectives	Optimize our portfolio	Strengthen customer loyalty	Pursue operational excellence	Empower our employees
What does this objective involve?	Making sure we invest in areas that offer strong growth and attractive returns.	Improving our service to customers, extending our range of products and investing in new distribution.	Reducing costs, encouraging innovation and making more effective use of our resources.	Providing the tools and training our employees need to serve our customers and achieve their own professional goals.
What performance indicators do we use?	• % of earnings from fees • % of sales direct to customer[1]	• % of Aegon businesses using the Net Promoter Score (NPS) to measure customer loyalty • NPS performance (benchmarked vs. peers)	• Ratio of costs to assets • Ratio of costs to earnings	• Employee engagement • Employee enablement
Why did we choose these indicators? How do they link to our material issues?	We want a better balance in our earnings. We want to earn more relatively from fees, and reduce our dependence on credit spreads.	NPS will help drive improvements in both products and customer service, helping us adapt to changes in our markets and ensuring that customers stay with us for longer.	We want to improve our efficiency; these ratios will help us track our progress. Being more efficient will help us adapt more quickly to greater competition and the increase we're seeing in financial services regulation.	Employee engagement is one of our material issues. We want to strengthen employee engagement because we know the more motivated our employees, the better, generally, our customer service.
What material issues do they link to?	• Persistently low interest rates • Changing capital requirements • Increased use of new technology	• Customer service & product performance • Changing demographics • Increased use of new technology	• Increased use of new technology • Increased regulation	• Employee engagement
How did we perform in 2014?	Our target is to double fee-based income to 30%-35% of our underlying earnings before tax by 2015. In 2014, the figure was 39%, so we're ahead of schedule. Our direct sales[1] – online, via tied agents and through affinity and worksite marketing – accounted for 21% of total sales last year, up from 12% in 2013.	Ninety-nine percent[2] of our businesses worldwide now use NPS to measure customer loyalty. We benchmark our NPS performance against peers. To meet our target of being the *most recommended*, we want to be in the top 25% in each of our chosen markets. Last year, most of our benchmarked businesses ranked in the second or third quartile. Please see page 31 for further details.	We don't have a target in this area, but we strive for improvements year on year. In 2014, our costs:earnings ratio improved slightly to 58%[3] (from 59% the previous year). Costs:assets was unchanged at 0.6%.	Over the past three years, we've seen a steady improvement in our overall employee engagement scores. Results from our latest survey, conducted earlier this year, show we're out-ranking even high-performing companies from other sectors (please see page 33). In our most recent survey, 75% of employees said they would recommend Aegon as a place to work.

1 Based on budgeted sales.
2 Weighted by IFRS capital allocation.
3 Adjusted for model and assumption updates. Without these adjustments, our cost: earnings ratio for 2014 would have totaled 61%.

What about our financial targets?

Target	Performance 2014
Achieve a return on equity by 2015 of between 10% and 12%.	Our return on equity last year was 7.8%, lower than we'd hoped for, mainly because of the impact of low interest rates, updates to our models and assumptions, and lower returns from some of our businesses, including those we've placed in run-off.
Grow underlying earnings before tax by an average of 7%-10% a year between 2012 and 2015.	Over the past few years, our underlying earnings before tax have remained stable; in 2014, our earnings came to just under €1.9 billion, 6% lower than in 2012. Our earnings last year were affected in particular by low interest rates and changes to our models and economic assumptions.
Increase annual operational free cash flow by 2015 to between €1.3 billion and €1.6 billion[1].	In 2014, our operational free cash flows – adjusted for market impact and one-off items – totaled €1.2 billion, only just below our targeted range.

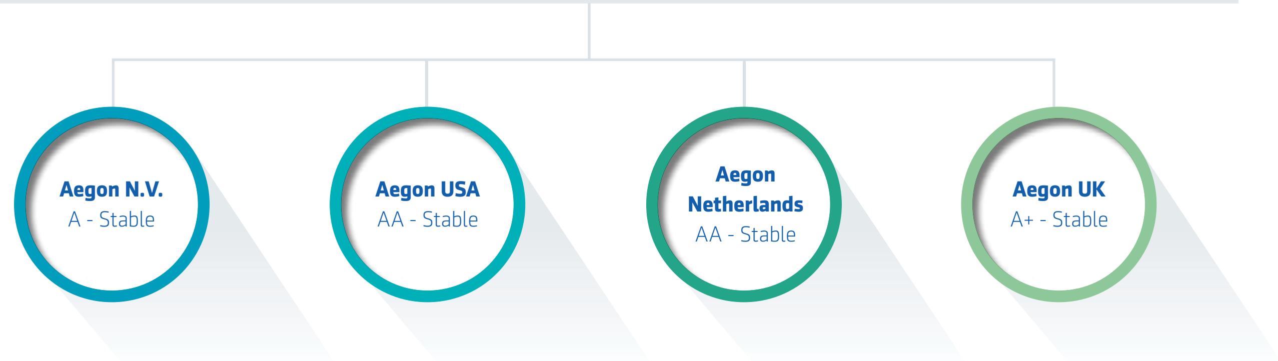
1 After adjustement for market impact.

Our financial ratings

Financial ratings are very important to our business. They provide a measure of our financial strength – and our ability to meet claims and other obligations. A solid rating means customers and others can be confident doing business with us.

We're rated by three main agencies: Standard & Poor's, Moody's and Fitch. Our overall aim is to have enough capital that we maintain a AA financial strength rating. We've built this aim into our capital management strategy.

Our financial strength ratings
Standard & Poor's
(at end-December 2014)



Our strategy since 2008

Unlocking our potential
Aegon outlines a new strategy, *Unlocking the Global Potential*. The strategy is aimed at bringing Aegon's businesses closer together, and making better use of the company's worldwide resources.

Government support
Aegon accepts €3 billion in Dutch government support as part of a broader program to help banks and insurers weather the worst financial crisis for decades.

Crisis measures
In response to the crisis, Aegon refocuses its short-term strategy on three priorities: Capital, Costs and Contingency. The 3 Cs plan is designed to reduce costs, lower risk and free up more capital. Aegon puts its US institutional spread-based business into run-off.

New ambition
CEO Alex Wynaendts outlines a new ambition for Aegon: to be a leader in its chosen markets. Cost restructuring, meanwhile, continues in Aegon's main markets – the US, the Netherlands and the UK.

At the same time, Aegon announces the planned sale of its reinsurance business and a stronger focus on two key growth areas: at retirement and workplace savings.

Repaying government
Aegon repays the Dutch government in full and ahead of schedule. Repayment, including premiums and interest, totals almost €4.1 billion. The company also unveils ambitious financial targets and launches new principles for the fair treatment of customers.

Growth markets
Aegon invests more in growth markets and seals a new distribution deal with Banco Santander in Spain.

Campaign
In the US, Transamerica launches its *Tomorrow Makers* campaign, with the tagline, *Transform Tomorrow*.

New technologies
Aegon steps up investment in new technologies – part of efforts to bring the company closer to its customers. Aegon launches new websites, platforms, apps and other online tools at its businesses in the Americas, Europe and Asia.

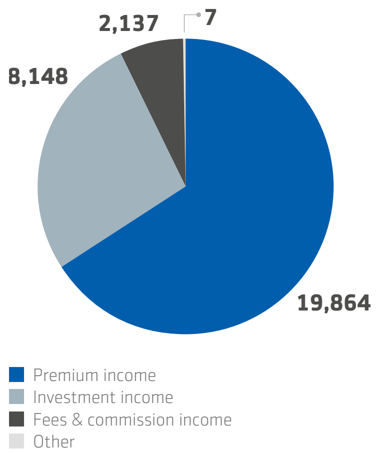
Growth opportunities
Aegon pushes on with further restructuring, agreeing to sell the company's business in Canada and negotiating new partnerships in both China and France.

New technologies

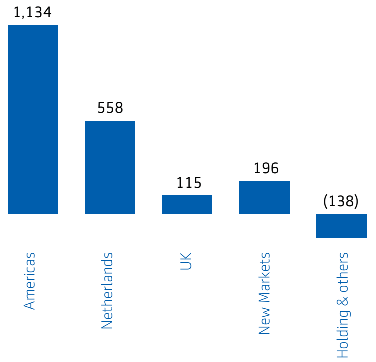
"Technology offers us a real opportunity. It's bringing us much closer to the people who matter most – our customers."

Brenda Clancy
Global Chief Technology Officer

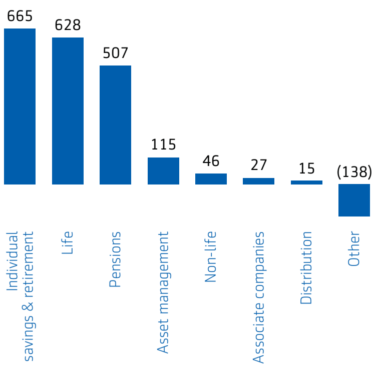
Aegon revenue by source
(In € million)



Underlying earnings before tax by reporting unit
(In € million)



Underlying earnings before tax by line of business
(In € million)



How do we make our money?

We have three main sources of revenue: fees and commissions, income from the investments we make and, by far the most important, premium payments from our policyholders. In addition, we have income from financial transactions, which vary from year to year depending on market conditions.

Alongside this income, we have costs. These include claims and benefits paid to our customers, which account for approximately 90% of the total. We have our own operating expenses, and the commissions we pay when brokers and other intermediaries sell products on our behalf. And we occasionally take impairments when we believe an investment has permanently lost value.

Before we get to our net income, there are two other factors to consider. First, under general accounting rules, we have to account for changes in the value of some of our investments – which may show a gain or a loss, depending on financial markets. Given the size of our investments, these fair value items may represent a very significant amount.

Equally, we pay corporate income tax on our earnings. Our annual profit & loss statement includes an estimate of the amount of tax relating to that year. This isn't the same as the amount we pay, which may include not only tax on that year's earnings, but also payments from other years. In addition, some tax items aren't recognized in our profit & loss statement, but directly in the company's equity.

Along with our net income, we also publish what we call underlying earnings before tax. This is an important measure[1] of profitability for us because it strips out factors such as tax, impairments, fair value items and any losses or gains we make on investments. We believe underlying earnings before tax gives a much clearer picture of how our businesses themselves are performing.

How did we perform financially in 2014?

Over recent years, we've seen a significant improvement in our earnings. Last year, we reported another solid set of numbers – despite difficult conditions, with persistently low interest rates and volatile world financial markets.

- Sales rose by nearly 20% to €8.6 billion, the result of efforts to expand our distribution in the US, Europe and Asia. Gross deposits were also up by 25% to just over €55 billion thanks mainly to growth in our US pensions, variable annuities and asset management businesses.
- Even though our businesses grew last year, our expenses – including the payments we make to intermediaries – remained more or less unchanged at €5.9 billion. In recent years, we've cut costs, and one of our priorities is to remain as efficient as possible.
- Underlying earnings before tax amounted to nearly €1.9 billion, down just 5% from the previous year. Net income was 38% higher, due mainly to higher underlying earnings, as well as a reversal in impairment charges and lower losses from fair value items.
- Our capital position remains strong: last year saw a further improvement in our leverage – the ratio, in other words, between the amount of debt we have and the amount of capital. Since 2011, we've brought down our leverage by 25%.

1 Alongside other measures of profitability under IFRS, as reported in our Annual Report and Form 20-F, available online at aegon.com.