PINNACLE FINANCIAL PARTNERS INC
Form 10-Q
May 04, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(mark one)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from ____ to ____

Commission File Number: 000-31225

, Inc.
(Exact name of registrant as specified in its charter)

Tennessee	62-1812853
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

150 Third Avenue South, Suite 900, Nashville, Tennessee 37201	
(Address of principal executive offices)	(Zip Code)

(615) 744-3700
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changes since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o	Accelerated Filer x
Non-accelerated Filer o	Smaller reporting company o

(do not check if you are a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of April 27, 2012 there were 34,588,975 shares of common stock, $1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
March 31, 2012

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FORWARD-LOOKING STATEMENTS

Certain of the statements in this quarterly report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “expect,” “anticipate,” “goal,” “objective,” “intend,” “plan,” “believe,” ”should,” “seek,” “estimate” and s expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking. All forward-looking statements are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of Pinnacle Financial to differ materially from any results expressed or implied by such forward-looking statements. Such risks include, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low, short-term interest rate environment; (iii) the inability of Pinnacle Financial to grow its loan portfolio in the Nashville-Davidson-Murfreesboro-Franklin MSA (“the Nashville MSA”) and the Knoxville MSA; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial’s asset management activities in improving, resolving or liquidating lower-quality assets; (vi) increased competition with other financial institutions; (vii) greater than anticipated adverse conditions in the national or local economies including the Nashville MSA and the Knoxville MSA, particularly in commercial and residential real estate markets; (viii) rapid fluctuations or unanticipated changes in interest rates; (ix) the results of regulatory examinations; (x) the development of any new market other than Nashville or Knoxville; (xi) a merger or acquisition; (xii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xiii) the ability to attract additional financial advisors or to attract customers from other financial institutions and conversely, the inability to realize the economic benefits of newly hired financial advisors; (xiv) the impact of governmental restrictions on and discretionary regulatory authority over entities participating in the Capital Purchase Program (the “CPP”) of the U.S. Department of the Treasury (the “U.S. Treasury”); (xv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvi) inability to comply with regulatory capital requirements or to secure any required regulatory approvals for capital actions, including redemption of the remaining preferred shares sold to the U.S. Treasury that are outstanding; and (xvii) changes in state and federal legislation, regulations or policies applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, including implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). A more detailed description of these and other risks is contained in “Item 1A. Risk Factors” of the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2012. Many of such factors are beyond Pinnacle Financial’s ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial disclaims any obligation to update or revise any forward-looking statements contained in this quarterly report, whether as a result of new information, future events or otherwise.

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Item 1. Part I. Financial Information

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and noninterest-bearing due from banks	$60,400,972	$63,015,997
Interest-bearing due from banks	70,901,830	108,422,470
Federal funds sold	764,526	724,573
Cash and cash equivalents	132,067,328	172,163,040
Securities available-for-sale, at fair value	838,718,889	894,962,246
Securities held-to-maturity (fair value of $1,074,394 and $2,369,118 at March 31, 2012 and December 31, 2011, respectively)	1,049,793	2,329,917
Mortgage loans held-for-sale	23,541,493	35,363,038
Loans	3,337,869,085	3,291,350,857
Less allowance for loan losses	(71,379,400)	(73,974,675)
Loans, net	3,266,489,685	3,217,376,182
Premises and equipment, net	76,378,894	77,127,361
Other investments	44,990,439	44,653,840
Accrued interest receivable	16,019,272	15,243,366
Goodwill	244,071,513	244,076,492
Core deposits and other intangible assets	7,156,200	7,842,267
Other real estate owned	34,018,658	39,714,415
Other assets	105,080,416	113,098,540
Total assets	$4,789,582,580	$4,863,950,704
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$756,909,243	$717,378,933
Interest-bearing	694,755,093	637,203,420
Savings and money market accounts	1,480,671,167	1,585,260,139
Time	655,783,708	714,496,974
Total deposits	3,588,119,211	3,654,339,466
Securities sold under agreements to repurchase	118,088,532	131,591,412
Federal Home Loan Bank advances	226,031,695	226,068,796
Subordinated debt	97,476,000	97,476,000
Accrued interest payable	1,912,756	2,233,330
Other liabilities	39,288,938	42,097,132
Total liabilities	4,070,917,132	4,153,806,136
Stockholders’ equity:		
Preferred stock, no par value; 10,000,000 shares authorized; 71,250 shares issued and outstanding at March 31, 2012 and December 31, 2011	69,355,475	69,096,828

Common stock, par value $1.00; 90,000,000 shares authorized; 34,616,013 shares and 34,354,960 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	34,616,013	34,354,960
Common stock warrants	3,348,402	3,348,402
Additional paid-in capital	537,860,446	536,227,537
Retained earnings	56,999,267	49,783,584
Accumulated other comprehensive income, net of taxes	16,485,845	17,333,257
Total stockholders' equity	718,665,448	710,144,568
Total liabilities and stockholders' equity	$4,789,582,580	$4,863,950,704

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Interest income:		
Loans, including fees	$38,637,719	$38,353,481
Securities:		
Taxable	4,929,284	6,360,899
Tax-exempt	1,703,146	1,935,888
Federal funds sold and other	553,939	574,006
Total interest income	45,824,088	47,224,274
Interest expense:		
Deposits	4,827,476	9,424,241
Securities sold under agreements to repurchase	155,576	381,569
Federal Home Loan Bank advances and other borrowings	1,337,031	1,397,831
Total interest expense	6,320,083	11,203,641
Net interest income	39,504,005	36,020,633
Provision for loan losses	1,034,245	6,139,138
Net interest income after provision for loan losses	38,469,760	29,881,495
Noninterest income:		
Service charges on deposit accounts	2,323,962	2,261,457
Investment services	1,646,778	1,508,086
Insurance sales commissions	1,287,560	1,049,232
Gain on mortgage loans sold, net	1,494,472	609,377
Gain (loss) on sale of investment securities, net	113,600	(159,103)
Trust fees	795,435	729,988
Other noninterest income	2,287,531	2,325,020
Total noninterest income	9,949,338	8,324,057
Noninterest expense:		
Salaries and employee benefits	19,792,566	17,923,622
Equipment and occupancy	5,008,655	5,006,710
Other real estate expense	4,676,064	4,334,118
Marketing and other business development	785,325	753,751
Postage and supplies	563,294	489,877
Amortization of intangibles	686,067	715,904
Other noninterest expense	4,307,735	5,476,846
Total noninterest expense	35,819,706	34,700,828
Income before income taxes	12,599,392	3,504,724
Income tax expense	4,234,438	-
Net income	8,364,954	3,504,724
Preferred stock dividends	900,519	1,187,500
Accretion on preferred stock discount	258,647	305,974
Net income available to common stockholders	$7,205,788	$2,011,250

Per share information:		
Basic net income per common share available to common stockholders	$0.21	$0.06
Diluted net income per common share available to common stockholders	$0.21	$0.06
Weighted average shares outstanding:		
Basic	33,811,871	33,366,053
Diluted	34,423,898	34,013,810

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income:	$8,364,954	$3,504,724
Other comprehensive income, net of tax:		
Decrease in net gains on securities available-for-sale, net of deferred tax	(847,412)	(292,817)
Total Comprehensive income	$7,517,542	$3,211,907

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comp. Income, net	Total Stockh[...] Equity
Balances, December 31, 2010	$90,788,682	33,870,380	$33,870,380	$3,348,402	$530,829,019	$12,996,202	$5,624,600	$677,4
Exercise of employee common stock options and related tax benefits	-	106,730	106,730	-	610,337	-	-	717,0
Repurchase of preferred stock		-	-	-	-	-	-	-
Issuance of restricted common shares, net of forfeitures	-	165,822	165,822	-	(165,822)	-	-	-
Issuance of Salary Stock Units	-	6,169	6,169	-	90,886	-	-	97,05
Restricted shares withheld for taxes	-	(16,845)	(16,845)	-	(230,892)	-	-	(247,7
Compensation expense for restricted shares	-	-	-	-	808,207	-	-	808,2
Compensation expense for stock options	-	-	-	-	370,092	-	-	370,0
Accretion on preferred stock discount	305,974	-	-	-	-	(305,974)	-	-
Preferred dividends paid	-	-	-	-	-	(1,187,500)	-	(1,187
Net income	-	-	-	-	-	3,504,724	-	3,504
Other comprehensive loss							(292,817)	(292,8
Balances, March 31, 2011	$91,094,656	34,132,256	$34,132,256	$3,348,402	$532,311,827	$15,007,452	$5,331,783	$681,2

Balances, December 31, 2011	$69,096,828	34,354,960	$34,354,960	$3,348,402	$536,227,537	$49,783,584	$17,333,257	$710,1
Exercise of employee common stock options and related tax benefits	-	180,487	180,487	-	304,428	-	-	484,9
Issuance of restricted common shares, net of forfeitures	-	95,912	95,912	-	(95,912)	-	-	-
Issuance of Salary Stock Units	-	27,672	27,672	-	449,891	-	-	477,5
Restricted shares withheld for taxes	-	(43,018)	(43,018)	-	(36,459)	-	-	(79,47
Compensation expense for restricted shares	-	-	-	-	857,160	-	-	857,1
Compensation expense for stock options	-	-	-	-	153,801	-	-	153,8
Accretion on preferred stock discount	258,647	-	-	-	-	(258,647)	-	-
Preferred dividends paid	-	-	-	-	-	(890,624)	-	(890,6
Net income	-	-	-	-	-	8,364,954	-	8,364
Other comprehensive loss							(847,412)	(847,4
Balances, March 31, 2012	$69,355,475	34,616,013	$34,616,013	$3,348,402	$537,860,446	$56,999,267	$16,485,845	$718,6

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months ended March 31, 2012	2011
Operating activities:		
Net income	$8,364,954	$3,504,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	1,971,889	2,102,529
Depreciation and amortization	2,660,347	2,795,884
Provision for loan losses	1,034,245	6,139,138
Gain on mortgage loan sales, net	(1,494,472)	(609,377)
(Gain) loss on sale of investment securities, net	(113,600)	159,103
Stock-based compensation expense	1,488,522	1,275,354
Deferred tax benefit	(1,831,027)	-
Losses on dispositions of other real estate and other investments	4,283,855	3,297,185
Excess tax benefit from stock compensation	(4,978)	(7,117)
Mortgage loans held for sale:		
Loans originated	(105,694,598)	(62,944,534)
Loans sold	119,023,000	70,980,585
Increase in other assets	15,794,855	8,577,073
(Decrease) increase in other liabilities	(3,128,767)	595,804
Net cash provided by operating activities	42,354,225	35,866,351
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(17,954,670)	(49,158,590)
Sales	14,359,785	19,277,990
Maturities, prepayments and calls	56,585,619	60,713,289
Activities in securities held-to-maturity:		
Maturities, prepayments and calls	1,280,000	1,049,999
Increase in loans, net	(54,941,031)	(21,304,654)
Purchases of software, premises and equipment	(1,271,826)	(975,525)
Other investments	(286,569)	(238,101)
Net cash (used in) provided by investing activities	(2,228,692)	9,364,408
Financing activities:		
Net decrease in deposits	(66,220,256)	(101,153,661)
Net (decrease) increase in securities sold under agreements to repurchase	(13,502,880)	18,837,951
Advances from Federal Home Loan Bank:		
Issuances	215,000,000	-
Payments/maturities	(215,017,901)	(10,019,502)
Preferred dividends paid	(890,624)	(1,187,500)
Exercise of common stock options and stock appreciation rights	405,438	469,330
Excess tax benefit from stock compensation	4,978	7,117
Net cash used in financing activities	(80,221,245)	(93,046,265)
Net decrease in cash and cash equivalents	(40,095,712)	(47,815,506)
Cash and cash equivalents, beginning of period	172,163,040	188,586,181

Cash and cash equivalents, end of period	$132,067,328	$140,770,675

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Nature of Business — Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle National Bank (Pinnacle National.) Pinnacle National is a commercial bank headquartered in Nashville, Tennessee. Pinnacle National provides a full range of banking services in its primary market areas of the Nashville-Davidson-Murfreesboro-Franklin, Tennessee and Knoxville, Tennessee Metropolitan Statistical Areas.

Basis of Presentation — The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Pinnacle Financial consolidated financial statements and related notes appearing in the 2011 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III, and PNFP Statutory Trust IV, are affiliates of Pinnacle Financial and are included in these consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, any potential impairment of intangible assets, including goodwill and the valuation of deferred tax assets, of other real estate owned, and of our investment portfolio including other-than-temporary impairment. These financial statements should be read in conjunction with Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes to Pinnacle Financial's significant accounting policies as disclosed in Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2011.

Recently Adopted Accounting Pronouncements — In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)-Fair Value Measurement (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 was effective for Pinnacle Financial during the first quarter of fiscal 2012 and was applied prospectively.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income — Presentation of Comprehensive Income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Rather, it gives an entity the choice to present the components of net income and other comprehensive income in either a single continuous statement or two separate but consecutive statements. The components of comprehensive income and timing of reclassification of an item to net income do not change with this update. ASU 2011-05 requires retrospective application and is effective for annual and interim periods beginning after December 15, 2011. Pinnacle Financial adopted this ASU in the first quarter of 2012 and has presented separate Consolidated Statements of Comprehensive Income.

In September 2011, the FASB issued ASU No. 2011-8, Intangibles — Goodwill and Other, regarding testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). Based on the qualitative assessment, if an entity determines that the fair value of a reporting unit is more than its carrying amount, the two-step goodwill impairment test is not required. The new guidance was adopted by Pinnacle Financial beginning January 1, 2012.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Cash Flow Information — Supplemental cash flow information addressing certain cash and noncash transactions for each of the three months ended March 31, 2012 and 2011 was as follows:

	For the three months ended March 31,	
	2012	2011
Cash Transactions:		
Interest paid	$ 6,659,856	$ 12,493,306
Income taxes received, net	7,825,894	-
Noncash Transactions:		
Loans charged-off to the allowance for loan losses	4,925,559	11,658,354
Loans foreclosed upon and transferred to other real estate owned	4,574,792	6,401,209

Income Per Common Share — Basic net income per share available to common stockholders (EPS) is computed by dividing net income available to common stockholders by the weighted average common shares outstanding for the period. Weighted average common shares outstanding also include salary stock units issued to the named executive officers. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The difference between basic and diluted weighted average shares outstanding is attributable to common stock options, common stock appreciation rights, warrants and restricted shares with time-based vesting criteria. The dilutive effect of outstanding options, common stock appreciation rights, warrants and restricted shares with time-based vesting criteria is reflected in diluted EPS by application of the treasury stock method.

As of March 31, 2012, there were approximately 1,392,000 stock options and 7,800 stock appreciation rights outstanding to purchase common shares. Additionally, as of March 31, 2012, there were 267,445 outstanding warrants to purchase shares of Pinnacle Financial common stock. These warrants were issued in conjunction with Pinnacle Financial's participation in the U.S. Treasury's Capital Purchase Program (CPP) as more fully discussed in Note 2. For the three months ended March 31, 2012, approximately 612,000 of dilutive stock options, stock appreciation rights, warrants and restricted shares with time-based vesting criteria included in the earnings per share calculation. As of March 31, 2011, there were approximately 1,667,700 stock options and 8,200 stock appreciation rights outstanding to purchase common shares. For the quarter ended March 31, 2011, there were approximately 648,000 dilutive stock options, stock appreciation rights, warrants and time-based restricted shares with time-based vesting criteria outstanding to purchase common shares that were included in the earnings per share calculation.

The following is a summary of the basic and diluted earnings per share calculations for the three months ended March 31, 2012 and 2011:

	2012	2011
Basic earnings per share calculation:		
Numerator - Net income available to common stockholders	$7,205,788	$2,011,250
Denominator - Average common shares outstanding	33,811,871	33,366,053
Basic net income per share available to common stockholders	$0.21	$0.06
Diluted earnings per share calculation:		
Numerator – Net income available to common stockholders	$7,205,788	$2,011,250
Denominator - Average common shares outstanding	33,811,871	33,366,053

Dilutive shares contingently issuable	612,027	647,757
Average diluted common shares outstanding	34,423,898	34,013,810
Diluted net income per share available to common stockholders	$0.21	$0.06

Note 2. Participation in U.S. Treasury Capital Purchase Program

On December 12, 2008, Pinnacle Financial issued 95,000 shares of preferred stock to the Treasury for $95 million pursuant to the Treasury's Capital Purchase Program (CPP) under the Troubled Assets Relief Program (TARP). The CPP preferred stock is non-voting, other than having class voting rights on certain matters, and pays cumulative dividends quarterly at a rate of 5% per annum for the first five years and 9% thereafter. Pinnacle Financial can redeem the preferred shares issued to the Treasury under the CPP at any time subject to a requirement that it must consult with its primary federal regulator before redemption. Additionally, Pinnacle Financial issued warrants to purchase 534,910 shares of common stock to the Treasury as a condition to its participation in the CPP. The warrants have an exercise price of $26.64 each, are immediately exercisable and expire 10 years from the date of issuance. On June 16, 2009, Pinnacle Financial completed the sale of 8,855,000 shares of its common stock in a public offering, resulting in net proceeds to Pinnacle Financial of approximately $109 million. As a result, and pursuant to the terms of the warrants issued to the U.S. Treasury in connection with Pinnacle Financial's participation in the CPP, the number of shares issuable upon exercise of the warrants issued to the Treasury in connection with the CPP was reduced by 50%, or 267,455 shares.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

During the fourth quarter of 2011, Pinnacle Financial repurchased 23,750 of the preferred shares originally issued to the U.S. Treasury under the CPP in a transaction totaling approximately $23.9 million. Following the partial redemption of preferred shares, 71,250 shares of Series A preferred stock remain issued and outstanding and held by the U.S. Treasury at December 31, 2011. At March 31, 2012, the Series A preferred stock represents approximately $69 million of our stockholders' equity.

Note 3. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at March 31, 2012 and December 31, 2011 are summarized as follows (in thousands):

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. government agency securities	$19,786	$133	$4	$19,915
Mortgage-backed securities	591,033	21,796	253	612,576
State and municipal securities	182,207	13,042	59	195,190
Corporate notes and other	9,681	1,357	-	11,038
	$802,707	$36,328	$316	$838,719
Securities held-to-maturity:				
State and municipal securities	$1,050	$24	$-	$1,074
	$1,050	$24	$-	$1,074

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Government agency securities	$41,978	$344	$9	$42,313
Mortgage-backed securities	623,684	22,254	371	645,567
State and municipal securities	182,206	13,768	22	195,952
Corporate notes and other	9,687	1,443	-	11,130
	$857,555	$37,809	$402	$894,962
Securities held-to-maturity:				
State and municipal securities	2,330	39	$-	2,369
	$2,330	$39	$-	$2,369

At March 31, 2012, approximately $606.1 million of securities within Pinnacle Financial's investment portfolio were either pledged to secure public funds and other deposits or securities sold under agreements to repurchase.

The amortized cost and fair value of debt securities as of March 31, 2012 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities since the mortgages underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary (in thousands):

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$3,259	$3,293	$475	$477
Due in one year to five years	40,954	42,299	575	597
Due in five years to ten years	80,025	86,618	-	-
Due after ten years	87,436	93,933	-	-
Mortgage-backed securities	591,033	612,576	-	-
	$802,707	$838,719	$1,050	$1,074

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
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(Unaudited)

At March 31, 2012 and December 31, 2011, included in securities were the following investments with unrealized losses. The information below classifies these investments according to the term of the unrealized losses of less than twelve months or twelve months or longer (in thousands):

	Investments with an Unrealized Loss of less than 12 months		Investments with an Unrealized Loss of 12 months or longer		Total Investments with an Unrealized Loss	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2012:						
U.S. government agency securities	$1,386	$4	$-	$-	$1,386	$4
Mortgage-backed securities	35,449	245	9,678	8	45,127	253
State and municipal securities	5,162	56	845	3	6,007	59
Corporate notes	-	-	-	-	-	-
Total temporarily-impaired securities	$41,997	$305	$10,523	$11	$52,520	$316
At December 31, 2011:						
U.S. government agency securities	$5,452	$9	$-	$-	$5,452	$9
Mortgage-backed securities	41,598	341	17,826	30	59,424	371
State and municipal securities	1,967	17	1,205	5	3,172	22
Corporate notes	-	-	-	-	-	-
Total temporarily-impaired securities	$49,017	$367	$19,031	$35	$68,048	$402

The applicable date for determining when securities are in an unrealized loss position is March 31, 2012. As such, it is possible that a security had a market value that exceeded its amortized cost on other days during the past twelve-month period, but is in the "Investments with an Unrealized Loss of less than 12 months" category above.

As shown in the table above, at March 31, 2012, Pinnacle Financial had unrealized losses of $316,000 on $52.5 million of available-for-sale securities. The unrealized losses associated with these investment securities are primarily driven by changes in interest rates and are not due to the credit quality of the securities. These securities will continue to be monitored as a part of our ongoing impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond issuers. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. Because Pinnacle Financial currently does not intend to sell these securities, that have an unrealized loss at March 31, 2012, and it is not more-likely-than-not that Pinnacle Financial will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, Pinnacle Financial does not consider these securities to be other-than-temporarily impaired at March 31, 2012.

Periodically, available-for-sale securities may be sold or the composition of the portfolio realigned to improve yields, quality or marketability, or to implement changes in investment or asset/liability strategy, including maintaining collateral requirements, raising funds for liquidity purposes and in the event of a bank merger where certain investment holdings acquired via the merger are outside of the firm's investment policy. Additionally, if an available-for-sale security loses its investment grade, tax-exempt status, the underlying credit support is terminated or collection otherwise becomes uncertain based on factors known to management, Pinnacle Financial will consider selling the security, but will review each security on a case-by-case basis as it becomes known. The table below shows the fair value of securities that have been sold during 2012 and the amount of gain or loss recognized on those securities as well as any other-than-temporary impairment identified during 2012.

For the quarter ended,	Fair Value of securities sold(1)	Gain recognized	Loss recognized	Net	Other-than-temporary impairment(2)	Gain on the			
							(63)	**-**	**9,497**

	December 31, 2012 (previously reported)	Change in accounting policy IFRS 10/11	Change in accounting policy IAS 19	December 31, 2012 (restated)
Cash and cash equivalents	9,653	(63)	-	9,590
Bank overdrafts	(93)	-	-	(93)
Net cash and cash equivalents	**9,560**	**(63)**	**-**	**9,497**

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2.5 Future adoption of voluntary changes in accounting policies

Aegon will make voluntary changes in accounting policies, effective January 1, 2014, which will be applied retrospectively for all periods presented. Changes to these policies relate to deferred policy acquisition costs and how Aegon accounts for longevity trends in the Netherlands. In the paragraphs below, details are provided for these changes in accounting policies.

Deferred policy acquisition costs

Aegon will adopt one single group-wide accounting policy for deferred policy acquisition costs as of January 1, 2014. Upon initial adoption of IFRS, entities were permitted to continue existing accounting policies for insurance contracts even though such policies were often non-uniform between countries. Through adoption of a uniform, group-wide accounting policy, Aegon will eliminate this lack of uniformity for the deferral of policy acquisition costs thereby providing the users of the financial statements with more meaningful information.

IFRS 4 neither prohibits nor requires the deferral of policy acquisition costs, nor does it prescribe what acquisition costs are deferrable. Thus, in developing the new policy, Aegon considered and sought alignment with the proposed description of deferrable policy acquisition costs within the IFRS Insurance Contracts Phase II exposure draft (Exposure Draft). In the absence of detailed guidance in the Exposure Draft, Aegon also considered the recently adopted guidance in US GAAP (ASU 2010-26 Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts), if not conflicting with IFRS 4 or the Exposure Draft. IFRS currently differs from US GAAP by not limiting the deferral to expenses from successful efforts only and in the detail of how that principle is applied. Under the new accounting policy, deferred policy acquisition costs include costs that are directly attributable to the acquisition or renewal of insurance contracts. The previous accounting policy was based on a broader definition of costs that could be deferred.

The adoption of the new accounting policy is expected to decrease shareholders equity at the date of adoption (January 1, 2014), by between EUR 1.4 and 1.6 billion. The company estimates that this accounting change will reduce underlying earnings before tax in 2014 by approximately a EUR 50 million, as certain expenses are no longer deferrable and are directly accounted for in the income statement.

Longevity reserving

As of January 1, 2014, Aegon will amend its policy to determine the insurance contract liability of Aegon the Netherlands to account for longevity risk assumed by Aegon. This change will provide more current information about the financial effects of changes in life expectancy of the insured population. The change will also increase alignment with market pricing of longevity risk. It will supply users of the financial statements with more relevant decision making information on the insurance contract liability and will improve transparency on the longevity risks assumed by Aegon.

Mortality tables will be updated annually based on the prospective tables taking into account longevity trends. The new methodology will take into account the contractual cash flows related to the longevity risk assumed. Previously the methodology applied by Aegon the Netherlands only considered realized mortalities based on retrospective mortality tables.

The change is expected to lead to a decrease in shareholders equity at the date of adoption (January 1, 2014) of between EUR 0.8 and 0.9 billion, and an increase in underlying earnings before tax of approximately EUR 105 million in 2014 after taking into account the EUR 25 million benefit from observed mortality in Aegon the Netherlands in Q4 2013.

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3. Segment information

3.1 Income statement

EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment Total	Joint ventures and associates eliminations	Consolidated
Three months ended December 31, 2013									
Underlying earnings before tax geographically	**327**	**110**	**21**	**49**	**(13)**	**(2)**	**491**	**(9)**	**483**
Fair value items	(90)	(145)	(6)	2	(21)	-	(260)	5	(255)
Realized gains / (losses) on investments	27	66	10	1	-	-	104	(1)	104
Impairment charges	(11)	(5)	(2)	(6)	-	-	(25)	-	(25)
Impairment reversals	15	8	-	-	-	-	24	-	24
Other income / (charges)	(13)	(6)	2	(11)	(6)	-	(33)	-	(33)
Run-off businesses	14	-	-	-	-	-	14	-	14
Income before tax	**269**	**28**	**26**	**35**	**(40)**	**(2)**	**315**	**(5)**	**310**
Income tax (expense) / benefit	(111)	(4)	(23)	(11)	8	-	(141)	5	(136)
Net income	**159**	**23**	**2**	**24**	**(33)**	**(2)**	**174**	**-**	**174**
Inter-segment underlying earnings	*(42)*	*(11)*	*(16)*	*61*	*8*				
Revenues									
Life insurance gross premiums	1,547	452	1,504	326	13	(18)	3,825	(75)	3,750
Accident and health insurance	436	30	-	35	2	(2)	500	(1)	500
General insurance	-	105	-	56	-	-	162	(19)	142
Total gross premiums	**1,983**	**587**	**1,504**	**417**	**15**	**(20)**	**4,487**	**(95)**	**4,392**
Investment income	842	626	458	54	82	(81)	1,982	(10)	1,971
Fee and commission income	331	87	12	157	-	(58)	530	(22)	508
Other revenues	-	-	-	-	1	-	1	(1)	1
Total revenues	**3,156**	**1,301**	**1,974**	**628**	**97**	**(158)**	**6,999**	**(127)**	**6,872**
Inter-segment revenues	*4*	-	-	*71*	*83*				

EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment Total	Joint ventures and associates eliminations	Consolidated
Three months ended December 31, 2012									
Underlying earnings before tax geographically	**352**	**85**	**27**	**52**	**(53)**	**(2)**	**461**	**(17)**	**444**
Fair value items	(16)	8	(11)	5	(63)	-	(77)	7	(70)
Realized gains / (losses) on investments	43	70	36	-	-	-	149	7	156
Impairment charges	(44)	(18)	-	(17)	-	-	(79)	2	(77)
Impairment reversals	13	8	-	-	-	-	21	-	21
Other income / (charges)	(25)	(7)	-	139	(1)	-	106	-	106
Run-off businesses	(15)	-	-	-	-	-	(15)	-	(15)
Income before tax	**308**	**146**	**52**	**179**	**(117)**	**(2)**	**566**	**(1)**	**565**
Income tax (expense) / benefit	(63)	(28)	(14)	(53)	23	-	(135)	1	(134)
Net income	**245**	**118**	**38**	**126**	**(94)**	**(2)**	**431**	**-**	**431**

Inter-segment underlying earnings	*(49)*	*(13)*	*(15)*	*72*	*5*				
Revenues									
Life insurance gross premiums	1,702	417	1,615	326	-	(21)	4,039	(125)	3,914
Accident and health insurance	457	34	-	41	2	(2)	532	(1)	531
General insurance	-	100	-	36	-	-	136	-	136
Total gross premiums	**2,159**	**551**	**1,615**	**403**	**2**	**(23)**	**4,707**	**(126)**	**4,581**
Investment income	907	558	420	65	96	(94)	1,952	(31)	1,921
Fee and commission income	316	84	30	129	-	(62)	497	(11)	486
Other revenues	2	-	-	1	1	-	4	(1)	3
Total revenues	**3,384**	**1,193**	**2,065**	**598**	**99**	**(179)**	**7,160**	**(169)**	**6,991**
Inter-segment revenues	*8*	*2*	*-*	*77*	*92*				

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EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment Total	Joint ventures and associates eliminations	Consolidated
Full year ended December 31, 2013									
Underlying earnings before tax geographically	**1,369**	**355**	**98**	**236**	**(109)**	**(3)**	**1,945**	**(50)**	**1,895**
Fair value items	(971)	(240)	(16)	(21)	(61)	-	(1,309)	37	(1,272)
Realized gains / (losses) on investments	111	342	48	-	-	-	502	-	502
Impairment charges	(109)	(40)	(31)	(16)	-	-	(196)	-	(196)
Impairment reversals	67	8	-	-	-	-	75	-	75
Other income / (charges)	72	(36)	(45)	(33)	(11)	-	(52)	6	(47)
Run-off businesses	14	-	-	-	-	-	14	-	14
Income before tax	**553**	**388**	**55**	**167**	**(181)**	**(3)**	**979**	**(8)**	**971**
Income tax (expense) / benefit	(107)	(97)	65	(34)	42	-	(130)	8	(123)
Net income	**446**	**292**	**120**	**133**	**(139)**	**(3)**	**849**	**-**	**849**
Inter-segment underlying earnings	*(173)*	*(54)*	*(59)*	*257*	*29*				
Revenues									
Life insurance gross premiums	6,187	3,515	6,537	1,349	14	(73)	17,529	(416)	17,112
Accident and health insurance	1,787	243	-	170	8	(8)	2,200	(10)	2,190
General insurance	-	487	-	194	-	-	681	(44)	637
Total gross premiums	**7,975**	**4,245**	**6,537**	**1,713**	**22**	**(82)**	**20,410**	**(471)**	**19,939**
Investment income	3,370	2,310	2,054	233	336	(336)	7,968	(58)	7,909
Fee and commission income	1,273	328	80	583	-	(238)	2,026	(76)	1,950
Other revenues	4	-	-	2	4	-	10	(3)	6
Total revenues	**12,622**	**6,883**	**8,670**	**2,531**	**362**	**(656)**	**30,413**	**(608)**	**29,805**
Inter-segment revenues	*20*	*1*	*1*	*292*	*342*				

EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment Total	Joint ventures and associates eliminations	Consolidated
Full year ended December 31, 2012									
Underlying earnings before tax geographically	**1,366**	**325**	**110**	**274**	**(220)**	**(4)**	**1,851**	**(71)**	**1,780**
Fair value items	(76)	123	(31)	(1)	(4)	-	11	45	56
Realized gains / (losses) on investments	175	138	84	10	-	-	407	3	410
Impairment charges	(181)	(37)	-	(26)	(4)	2	(246)	9	(237)
Impairment reversals	64	8	-	-	-	(2)	70	-	70
Other income / (charges)	(28)	(279)	34	113	(2)	-	(162)	(1)	(163)
Run-off businesses	2	-	-	-	-	-	2	-	2
Income before tax	**1,322**	**278**	**197**	**370**	**(230)**	**(4)**	**1,933**	**(15)**	**1,918**
Income tax (expense) / benefit	(266)	(11)	(24)	(121)	71	-	(351)	15	(336)
Net income	**1,056**	**267**	**173**	**249**	**(159)**	**(4)**	**1,582**	**-**	**1,582**
Inter-segment underlying earnings	*(191)*	*(60)*	*(62)*	*286*	*27*				
Revenues									
Life insurance gross premiums	6,541	3,004	6,047	1,374	-	(73)	16,893	(693)	16,200
Accident and health insurance	1,833	220	-	188	5	(5)	2,241	(11)	2,230

General insurance	-	475	-	144	-	-	619	-	619
Total gross premiums	**8,374**	**3,699**	**6,047**	**1,706**	**5**	**(78)**	**19,753**	**(704)**	**19,049**
Investment income	3,654	2,273	2,337	319	374	(374)	8,583	(170)	8,413
Fee and commission income	1,177	329	133	524	-	(263)	1,900	(44)	1,856
Other revenues	5	-	-	3	5	-	13	(4)	9
Total revenues	**13,210**	**6,301**	**8,517**	**2,552**	**384**	**(715)**	**30,249**	**(922)**	**29,327**
Inter-segment revenues	*31*	*2*	*1*	*310*	*371*				

Non-IFRS measures

For segment reporting purposes the following non-IFRS financial measures are included: underlying earnings before tax, income tax and income before tax. These non-IFRS measures are calculated by consolidating on a proportionate basis Aegon s joint ventures and associated companies. Aegon believes that its non-IFRS measures provide 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 the non-IFRS measures presented here. While many other insurers in Aegon s peer group present substantially similar non-IFRS measures, the non-IFRS measures presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards. Readers are cautioned to consider carefully the different ways in which Aegon and its peers present similar information before comparing them.

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

The reconciliation from underlying earnings before tax to income before tax, being the most comparable IFRS measure, is presented in the tables in this note.

Underlying earnings

Certain assets held by Aegon Americas, Aegon The Netherlands and Aegon UK are carried at fair value and managed on a total return basis, with no offsetting changes in the valuation of related liabilities. These include assets such as investments in hedge funds, private equities, real estate (limited partnerships), convertible bonds and structured products. Underlying earnings exclude any over- or underperformance compared to management s long-term expected return on assets.

Based on current holdings and asset returns, the long-term expected return on an annual basis is 8-10%, depending on asset class, including cash income and market value 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, including the segregated funds offered by Aegon Canada and the total return annuities and guarantees on variable annuities of Aegon USA. 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 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 The Netherlands and Variable Annuities Europe (included in New Markets) are excluded from underlying earnings, and the long-term expected return for these guarantees is set at zero.

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 and reported under fair value items.

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. Changes to these long-term return assumptions are also included in the fair value items.

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.

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

Includes impairments and reversals on available-for-sale debt securities and impairments on shares including the effect of deferred policyholder acquisition costs, mortgage loans and loan portfolios on amortized cost and associates respectively.

Other income or charges

Other income or charges is used to report any items which cannot be directly allocated to a specific line of business. Also items that are outside the normal course of business are reported under this heading.

Other charges include restructuring charges that are considered other charges for segment reporting purposes because they are outside the normal course of business. In the condensed consolidated income statement, these charges are included in operating expenses.

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 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.

Share in earnings of joint ventures and associates

Earnings from Aegon s joint ventures in Spain, China and Japan and Aegon s associates in India, Brazil and Mexico are reported on an underlying earnings basis.

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3.2 Investments geographically

Amounts included in the tables on investments geographically are presented on an IFRS-basis and include the reclassifications following the changes in accounting policies as included in notes 2.1 to 2.4.

							amounts in million EUR (unless otherwise stated)		
Americas USD	United Kingdom GBP	**December 31, 2013**	Americas	The Netherlands	United Kingdom	New Markets	Holding & other activities	Eliminations	Total EUR
		Investments							
2,007	46	Shares	1,456	447	55	45	36	(2)	2,036
78,719	8,719	Debt securities	57,125	19,095	10,479	2,812	-	-	89,511
11,289	1	Loans	8,192	24,708	1	508	-	-	33,409
11,418	173	Other financial assets	8,286	293	208	30	103	-	8,920
993	-	Investments in real estate	721	810	-	1	-	-	1,532
104,425	**8,938**	**Investments general account**	**75,780**	**45,354**	**10,743**	**3,396**	**139**	**(2)**	**135,409**
1,804	12,792	Shares	1,309	8,450	15,375	297	-	(8)	25,423
6,675	9,643	Debt securities	4,844	16,791	11,590	307	-	-	33,531
94,950	21,776	Unconsolidated investment funds	68,905	-	26,173	5,744	-	-	100,822
230	3,062	Other financial assets	167	405	3,680	9	-	-	4,261
-	828	Investments in real estate	-	-	996	-	-	-	996
103,659	**48,101**	**Investments for account of policyholders**	**75,224**	**25,646**	**57,813**	**6,357**	**-**	**(8)**	**165,032**
208,084	**57,039**	**Investments on balance sheet**	**151,004**	**70,999**	**68,556**	**9,754**	**139**	**(10)**	**300,441**
155,179	**239**	**Off balance sheet investments third parties**	**112,611**	**994**	**287**	**60,951**	**-**	**-**	**174,843**
363,262	**57,277**	**Total revenue generating investments**	**263,616**	**71,993**	**68,843**	**70,705**	**139**	**(10)**	**475,285**
		Investments							
86,347	8,892	Available-for-sale	62,661	19,452	10,687	2,827	8	-	95,635
11,289	1	Loans	8,192	24,708	1	508	-	-	33,409
109,455	47,318	Financial assets at fair value through profit or loss	79,430	26,029	56,872	6,418	131	(10)	168,870
993	828	Investments in real estate	721	810	996	1	-	-	2,528
208,084	**57,039**	**Total investments on balance sheet**	**151,004**	**70,999**	**68,556**	**9,754**	**139**	**(10)**	**300,441**
-	-	Investments in joint ventures	-	819	-	608	-	-	1,427
112	16	Investments in associates	81	19	20	350	1	-	470
32,231	5,167	Other assets	23,390	16,909	6,210	3,004	32,234	(30,467)	51,283
240,427	**62,222**	**Consolidated total assets**	**174,475**	**88,746**	**74,786**	**13,715**	**32,373**	**(30,478)**	**353,621**

							amounts in million EUR (unless otherwise stated)		
Americas USD	United Kingdom GBP	**December 31, 2012**	Americas	The Netherlands	United Kingdom	New Markets	Holding & other activities	Eliminations	Total EUR
		Investments							
1,833	42	Shares	1,390	412	51	16	-	(2)	1,867
83,964	8,975	Debt securities	63,686	19,256	11,066	2,817	-	-	96,825
11,748	4	Loans	8,910	22,245	5	552	-	-	31,712
15,434	175	Other financial assets	11,707	286	216	22	759	-	12,990
1,009	-	Investments in real estate	766	860	-	1	-	-	1,627
113,988	**9,196**	**Investments general account**	**86,459**	**43,059**	**11,338**	**3,408**	**759**	**(2)**	**145,021**
1,956	12,107	Shares	1,484	8,406	14,927	63	-	(6)	24,874
6,988	10,508	Debt securities	5,300	16,266	12,954	162	-	-	34,682
77,824	19,136	Unconsolidated investment funds	59,029	-	23,593	5,778	-	-	88,400

207	2,761	Other financial assets	157	422	3,404	21	-	-	4,004
-	817	Investments in real estate	-	-	1,008	-	-	-	1,008
86,975	**45,329**	**Investments for account of policyholders**	**65,970**	**25,094**	**55,886**	**6,024**	**-**	**(6)**	**152,968**
200,963	**54,525**	**Investments on balance sheet**	**152,429**	**68,153**	**67,224**	**9,432**	**759**	**(8)**	**297,989**
132,796	**8**	**Off balance sheet investments third parties**	**100,725**	**1,052**	**10**	**59,301**	**-**	**-**	**161,088**
333,759	**54,533**	**Total revenue generating investments**	**253,154**	**69,205**	**67,234**	**68,733**	**759**	**(8)**	**459,077**
		Investments							
95,282	9,155	Available-for-sale	72,271	19,717	11,286	2,826	19	-	106,119
11,748	4	Loans	8,910	22,245	5	552	-	-	31,712
92,924	44,549	Financial assets at fair value through profit or loss	70,482	25,331	54,925	6,053	740	(8)	157,523
1,009	817	Investments in real estate	766	860	1,008	1	-	-	2,635
200,963	**54,525**	**Total investments on balance sheet**	**152,429**	**68,153**	**67,224**	**9,432**	**759**	**(8)**	**297,989**
-	-	Investments in joint ventures	-	854	-	714	-	-	1,568
119	6	Investments in associates	90	21	8	648	4	-	771
33,732	5,098	Other assets	25,586	27,508	6,284	3,318	37,926	(36,066)	64,556
234,814	**59,629**	**Consolidated total assets**	**178,105**	**96,536**	**73,516**	**14,112**	**38,689**	**(36,074)**	**364,884**

4. Premium income and premium to reinsurers

EUR millions	Q4 2013	Q4 2012	FY 2013	FY 2012
Gross				
Life	3,750	3,914	17,112	16,200
Non-Life	642	667	2,827	2,849
Total	**4,392**	**4,581**	**19,939**	**19,049**
Reinsurance				
Life	698	848	2,756	3,298
Non-Life	84	97	351	404
Total	**782**	**945**	**3,108**	**3,702**

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5. Investment income

EUR millions	Q4 2013	Q4 2012	FY 2013	FY 2012
Interest income	1,735	1,708	6,842	7,322
Dividend income	212	188	957	978
Rental income	24	25	110	113
Total investment income	**1,971**	**1,921**	**7,909**	**8,413**
Investment income related to general account	1,438	1,452	5,632	5,905
Investment income for account of policyholders	534	469	2,277	2,508
Total	**1,971**	**1,921**	**7,909**	**8,413**

6. Results from financial transactions

EUR millions	Q4 2013	Q4 2012	FY 2013	FY 2012
Net fair value change of general account financial investments at FVTPL other than derivatives	150	61	370	409
Realized gains and (losses) on financial investments	105	170	500	552
Gains and (losses) on investments in real estate	(15)	39	(49)	(9)
Net fair value change of derivatives	(276)	101	(1,187)	327
Net fair value change on for account of policyholder financial assets at FVTPL	5,565	1,937	15,571	11,851
Net fair value change on investments in real estate for account of policyholders	25	(15)	(12)	(46)
Net foreign currency gains and (losses)	3	3	9	17
Net fair value change on borrowings and other financial liabilities	(21)	(7)	16	(48)
Realized gains and (losses) on repurchased debt	1	1	-	7
Total	**5,539**	**2,290**	**15,217**	**13,060**

Net fair value change on for accounts of policyholder financial assets at fair value through profit or loss are offset by amounts in the Claims and benefits line reported in note 8 - Benefits and expenses.

7. Other income

In the fourth quarter, other income of EUR 393 million in 2013 mainly reflects two reinsurance recapture transactions totaling EUR 200 million and book gains totaling EUR 176 million related to the sale of Unnim and CAM (refer to note 22 Acquisitions/Divestments).

In the second quarter of 2013, a book gain on Unnim of EUR 102 million included an amount of EUR 26 million which is recycled from equity through the income statement. In the third quarter of 2013, a net gain of EUR 74 million related to the sale of CAM included a negative amount of EUR 44 million which is recycled from equity through the income statement.

Other income in 2012 mainly includes the gain on the sale of Prisma Capital Partners LP (Prisma) of EUR 100 million and the gain following the ending of the life, health and pension partnership with Banca Cívica of EUR 35 million.

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8. Benefits and expenses

EUR millions	Q4 2013	Q4 2012	FY 2013	FY 2012
Claims and benefits	11,958	8,854	43,670	41,143
Employee expenses	518	535	2,060	2,002
Administration expenses	306	270	1,158	1,052
Deferred expenses	(403)	(470)	(1,550)	(1,567)
Amortization charges	294	431	1,183	1,329
Total	**12,672**	**9,620**	**46,522**	**43,959**

Claims and benefits paid to policyholders, 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. In addition, commissions and expenses are included, as well as premium paid to reinsurers. Claims and benefits fluctuates mainly as a result of changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in Results from financial transactions (note 6).

Deferred expenses contain an impairment charge related to Aegon s Polish pension business. For detailed information refer to note 12, Intangible Assets.

9. Impairment charges/(reversals)

EUR millions	Q4 2013	Q4 2012	FY 2013	FY 2012
Impairment charges / (reversals) comprise:				
Impairment charges on financial assets, excluding receivables [1]	28	72	203	243
Impairment reversals on financial assets, excluding receivables [1]	(25)	(22)	(77)	(70)
Impairment charges / (reversals) on non-financial assets and receivables	9	19	167	26
Total	**12**	**69**	**294**	**199**
Impairment charges on financial assets, excluding receivables, from:				
Shares	3	3	3	8
Debt securities and money market instruments	15	24	131	153
Loans	10	44	67	80
Other	-	-	-	1
Investments in associates	-	1	1	1
Total	**28**	**72**	**203**	**243**
Impairment reversals on financial assets, excluding receivables, from:				
Debt securities and money market instruments	(12)	(20)	(60)	(54)
Loans	(12)	(2)	(15)	(16)
Total	**(24)**	**(22)**	**(75)**	**(70)**

[1] Impairment charges / (reversals) on financial assets, excluding receivables, are excluded from underlying earnings before tax for segment reporting (refer to note 3).

Impairment charges on non-financial assets and receivables contain an impairment charge related to Aegon s Polish pension business. For detailed information refer to note 12, Intangible assets.

10. Other charges

Other charges of EUR 134 million in 2013 mainly include EUR 71 million related to an increase in reserves in connection with the company s use of the Social Security Administration s death master-file in the United States. Additionally, it includes a loss of EUR 22 million related to the sale of independent financial advisor Positive Solutions in the United Kingdom.

Other charges of EUR 52 million in 2012 mainly include a charge of EUR 26 million related to a settlement of the termination of a Bank-Owned Life Insurance contract in the United States and EUR 16 million related to the Hungarian bank tax. Due to regulation changes in Hungary, the bank tax has been replaced by a recurring insurance tax for which charges are recognized in operating expenses effective January 1, 2013.

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11. Income tax

In the fourth quarter of 2013, the Americas has derecognized a part of the deferred tax asset for tax losses of one of its entities for an amount of EUR 50 million.

For 2013, there is an offsetting beneficial impact on the deferred tax position as a result of the decreasing corporate income tax rate in the United Kingdom. The corporate income tax rate in the United Kingdom will decrease from 23% in 2013 to 21% as from April 1, 2014, and to 20% as from April 1, 2015.

12. Intangible assets

EUR millions	Dec. 31, 2013	Dec. 31, 2012
Goodwill	211	266
VOBA	1,742	1,777
Future servicing rights	239	383
Software	50	50
Other	4	9
Total intangible assets	**2,246**	**2,485**

The Polish government enacted into legislation its pension reform proposal. The outcome adversely impacts Aegon s Polish pension business growth and profitability from current in-force business. As a result, Aegon impaired intangibles related to this business: goodwill (EUR 53 million); future servicing rights (EUR 110 million); and DPAC write offs (EUR 29 million). The DPAC write offs are included in the deferred expenses and rebates (note 17).

13. Investments

EUR millions	Dec. 31, 2013	Dec. 31, 2012
Available-for-sale (AFS)	95,635	106,119
Loans	33,409	31,712
Financial assets at fair value through profit or loss (FVTPL)	4,833	5,563
Financial assets, excluding derivatives	**133,877**	**143,394**
Investments in real estate	1,532	1,627
Total investments for general account	**135,409**	**145,021**

Total financial assets, excluding derivatives

	AFS	FVTPL	Loans	Total
Shares	787	1,250	-	2,036
Debt securities	88,162	1,350	-	89,511
Money market and other short-term investments	5,524	449	-	5,974
Mortgages	-	-	29,245	29,245
Private loans	-	-	1,783	1,783
Deposits with financial institutions	-	-	292	292
Policy loans	-	-	1,955	1,955
Other	1,163	1,784	135	3,082
December 31, 2013	**95,635**	**4,833**	**33,409**	**133,877**

	AFS	FVTPL	Loans	Total
Shares	824	1,043	-	1,867
Debt securities	95,394	1,431	-	96,825
Money market and other short-term investments	8,687	1,084	-	9,771
Mortgages	-	-	28,350	28,350
Private loans	-	-	1,012	1,012
Deposits with financial institutions	-	-	96	96
Policy loans	-	-	2,103	2,103
Other	1,214	2,005	151	3,370
December 31, 2012	**106,119**	**5,563**	**31,712**	**143,394**

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14. Investments for account of policyholders

EUR millions	Dec. 31, 2013	Dec. 31, 2012
Shares	25,423	24,874
Debt securities	33,531	34,682
Money market and short-term investments	850	1,480
Deposits with financial institutions	3,006	2,087
Unconsolidated investment funds	100,822	88,400
Other	404	437
Total investments for account of policyholders at fair value through profit or loss, excluding derivatives	**164,037**	**151,960**
Investment in real estate	996	1,008
Total investments for account of policyholders	**165,032**	**152,968**

15. Derivatives

The movements in derivative balances mainly result from changes in interest rates and other market conditions.

16. Fair value

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

Fair value hierarchy

EUR millions	Level I	Level II	Level III	Total
Financial assets carried at fair value				
Available-for-sale investments				
Shares	202	262	322	787
Debt securities	20,815	64,184	3,162	88,162
Money markets and other short-term instruments	-	5,524	-	5,524
Other investments at fair value	25	312	826	1,163
December 31, 2013	**21,043**	**70,282**	**4,310**	**95,635**
Fair value through profit or loss				
Shares	1,120	130	-	1,250
Debt securities	64	1,268	17	1,350
Money markets and other short-term instruments	95	354	-	449
Other investments at fair value	-	567	1,217	1,784
Investments for account of policyholders [1]	99,040	63,008	1,989	164,037
Derivatives	69	13,134	328	13,531
December 31, 2013	**100,388**	**78,461**	**3,552**	**182,401**
Total financial assets at fair value	**121,431**	**148,744**	**7,862**	**278,036**
Financial liabilities carried at fair value				
Investment contracts for account of policyholders [2]	12,872	19,641	114	32,628
Borrowings [3]	517	500	-	1,017
Derivatives	24	10,383	1,431	11,838
Total financial liabilities at fair value	**13,413**	**30,524**	**1,545**	**45,482**

[1] The investments for account of policyholders included in the table above represents those investments carried at fair value through profit or loss.

[2] The investment contracts for account of policyholders included in the table above represents 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.

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Significant transfers between Level I and II

Aegon s policy is to record transfers of assets and liabilities between Level I and Level II at their fair values as of the beginning of each reporting period. During 2013, the amount of assets and liabilities transferred from Level II to Level I was EUR 473 million. Transfers are identified based on transaction volume and frequency, which are indicative of an active market.

The table below shows transfers between Level I and II for financial assets and financial liabilities recorded at fair value on a recurring basis during the year ended December 31, 2013:

Fair value transfers

EUR millions	Transfers Level I to Level II	Transfers Level II to Level I
Financial assets carried at fair value available-for-sale investments		
Shares	-	1
Debt securities	1	209
December 31, 2013	**2**	**210**
Fair value through profit or loss		
Investments for account of policyholders	-	263
December 31, 2013	**-**	**263**
Total financial assets at fair value	**2**	**473**

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.

Roll forward of Level III financial instruments

	January 1, 2013	Total gains / losses in income statement [1]	Total gains / losses in OCI [2]	Purchases	Sales	Settlements	Net exchange differences	Transfers from Level I and Level II	Transfers to Level I and Level II	December 31, 2013	Total unrealized gains and losses for the period recorded in the P&L for instruments held at December 31, 2013 [3]
Financial assets carried at fair value available-for-sale investments											

Shares	376	4	14	44	(98)	(11)	(6)	1	(1)	322	-
Debt securities	2,643	4	98	1,285	(192)	(466)	(80)	488	(619)	3,162	-
Other investments at fair value	883	(106)	73	134	(51)	(70)	(37)	-	-	826	-
	3,902	**(98)**	**185**	**1,464**	**(342)**	**(546)**	**(123)**	**489**	**(620)**	**4,310**	**-**
Fair value through profit or loss											
Debt securities	13	(2)	-	-	-	(1)	(1)	10	(2)	17	1
Other investments at fair value	1,416	145	-	53	(360)	-	(56)	106	(86)	1,217	146
Investments for account of policyholders	1,715	197	-	338	(407)	-	(15)	210	(50)	1,989	153
Derivatives	301	2	-	47	(15)	-	(7)	-	-	328	(1)
	3,446	**341**	**-**	**438**	**(782)**	**(1)**	**(78)**	**326**	**(139)**	**3,552**	**299**
Financial liabilities carried at fair value											
Investment contracts for account of policyholders	(109)	(20)	-	(3)	13	-	5	-	-	(114)	(19)
Derivatives	(2,317)	903	-	-	-	-	12	(30)	2	(1,431)	868
	(2,427)	**883**	**-**	**(3)**	**13**	**-**	**17**	**(30)**	**2**	**(1,545)**	**848**

[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 and (Gains)/ losses transferred to the income statement on disposal and impairment of available-for-sale investment of the statement of other comprehensive income.

[3] Total gains / (losses) for the period during which the financial instrument was in 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. During 2013, Aegon transferred certain financial instruments from Level I and 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 I and Level II securities was determined using observable market transactions or corroborated broker quotes respectively for the same or similar instruments. Since the transfer, all such assets have been valued using valuation models incorporating significant non market-observable inputs or uncorroborated broker quotes.

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Similarly, during 2013, Aegon transferred certain 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.

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

Overview of significant unobservable inputs

EUR millions	Carrying amount December 31, 2013	Valuation technique [1]	Significant unobservable input [2]	Range (weighted average)
Financial assets carried at fair value available-for-sale investments				
Shares	203	Broker quote	n.a.	n.a.
	119	Other	n.a.	n.a.
	322			
Debt securities				
RMBS	276	Broker quote	n.a.	n.a.
	61	Other	n.a.	n.a.
CMBS	21	Broker quote	n.a.	n.a.
	7	Other	n.a.	n.a.
ABS	202	Discounted cash flow	Discount rate	3% - 8% (6.62%)
	2,030	Broker quote	n.a.	n.a.
	59	Other	n.a.	n.a.
Corporate bonds	212	Discounted cash flow	Credit spread	0.4% - 2.6% (2.33%)
	259	Broker quote	n.a.	n.a.
	16	Other	n.a.	n.a.
Sovereign debt	19	Broker quote	n.a.	n.a.
	3,162			
Other investments at fair value				
Tax credit investments	696	Discounted cash flow	Discount rate	8.2%
Other	126	Net asset value	n.a.	n.a.
	4	Other	n.a.	n.a.
	826			
December 31, 2013	**4,310**			
Fair value through profit or loss				
Debt securities	**17**	Other	n.a.	n.a.
	17			
Other investments at fair value				
Real estate investments	591	Net asset value	n.a.	n.a.
Private equity investments	564	Net asset value	n.a.	n.a.
Hedge funds	62	Net asset value	n.a.	n.a.
	1,217			
Derivatives [3]				
Longevity swap	128	Discounted cash flow	Mortality	n.a.
Other	124	Other	n.a.	n.a.
	252			
December 31, 2013	**1,486**			

Total financial assets at fair value [3]	**5,796**			
Financial liabilities carried at fair value				
Derivatives				
Embedded derivatives in insurance contracts	1,213	Discounted cash flow	Credit spread	0.50%
Other	218	Other	n.a.	n.a.
Total financial liabilities at fair value	**1,431**			

[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 and used.

[3] 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 76 million.

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The valuation techniques included in the table above are described in more detail below:

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. Illiquidity adjustments 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 the Federal Home Loan Bank for an amount of EUR 94 million that are measured at par, which are reported as part of Other. The bank 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 bank.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS)

Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations are based on a pricing hierarchy and depending on the 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. 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 illiquidity 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.

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/tax benefits (and the timing of those cash flows). These inputs are unobservable in the market place.

Real estate investments, private equity investments 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.

Sovereign debt

When available, Aegon uses quoted market prices in active markets to determine the fair value of its sovereign 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.

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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) derivatives 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.

Derivatives at fair value through profit or loss consist of a longevity derivative. The payout of the longevity derivative is linked to an annually publicly available mortality table. The derivative is 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. The most significant unobservable input for these derivatives is the (projected) mortality development.

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

Certain 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, United Kingdom and Japan which are offered on some variable annuity products and are also assumed from a ceding company; minimum interest rate guarantees on insurance products offered in the Netherlands, including group pension and traditional products; and guaranteed minimum accumulation benefits on segregated funds sold in Canada.

Since the price of these guarantees is not quoted in any market, the fair values of these guarantees are 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 techniques under a variety of market return scenarios. A variety of factors are considered including 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 credit spread.

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 to other creditors). Aegon s assumptions are set by region to reflect differences in the valuation of the guarantee embedded in the insurance contracts.

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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. 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.

In the third quarter of 2013, Aegon updated the way it extrapolates yield curves beyond market observable maturities. The discount rates converge lineary in 10 years to an Ultimate Forward Rate of 4.25% from the last liquid point at 30 years. The uniform last liquid point for all Aegon s major currencies (USD, GBP and EUR) is set at 30 years. Additionally, Aegon updated the manner in which it estimates guarantees embedded within individual life contracts in the Netherlands. The impact of these updates was EUR 27 million negative.

Effect of reasonably possible alternative assumptions

EUR millions	Carrying amount December 31, 2013	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions (+/-) increase	decrease
Financial assets carried at fair value available-for-sale investments					
Debt securities					
ABS	202	Discount rate	a	19	(20)
Corporate bonds	212	Credit spread	b	25	(19)
Other investments at fair value					
Tax credit investments	696	Discount rate	c	13	(13)
Fair value through profit or loss					
Derivatives	128	Mortality	d	11	(17)
Financial liabilities carried at fair value					
Embedded derivatives in insurance contracts	1,213	Credit spread	e	37	(36)

The table above presents the impact on a fair value measurement of a change in an unobservable input. The impact of changes in inputs may not be independent, therefore the descriptions provided below indicate the impact of a change in an input in isolation.

a) The primary unobservable assumptions used in fair value measurement of asset backed securities is in general a liquidity premium in the discount rate. Changing the liquidity premium changes the discount rate when using the discounted cash flow model. Increasing or decreasing the liquidity premium respectively decreases or increases the value of the investment. Aegon adjusted the discount rate with 100 basis points up or down for this input.

b) For corporate bonds, the most significant unobservable input for the valuation of these securities is the credit spread. An increase in credit spread results in a lower valuation, while a decrease in credit spread results in a higher valuation. Aegon adjusted the discount rate by 50 basis points up or down for this input.

c) Tax credit investments are measured at fair value using an internal model. The most significant unobservable input for valuation of these tax credits is the discount rate. Increasing or decreasing the discount rate would result in respectively a lower or higher valuation. Aegon adjusted the discount rate by 50 basis points up or down for this input.

d) The derivative included is a longevity index derivative. Most significant unobservable input is expected mortality. Changing the expected mortality changes the cash flow expectations from this derivative. Increasing (decreasing) the mortality rates decreases (increases) the value of the investment. Aegon adjusted longevity with 2% up or down for this input, compared to the expected mortality in determining the value of this derivative.

e) To determine the fair value of the bifurcated embedded derivatives related to guarantees, a discount rate is used including credit spread. An increase in the credit spread results in lower valuation, while a decrease results in a higher valuation of the embedded derivatives. Aegon increased or decreased the credit spread by 20 basis points.

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Fair value information about financial instruments not measured at fair value

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

Fair value information about financial instruments not measured at fair value

EUR millions	Carrying amount December 31, 2013	Total estimated fair value December 31, 2013
Assets		
Mortgage loans - held at amortized cost	29,245	32,869
Private loans - held at amortized cost	1,783	1,888
Other loans - held at amortized cost	2,381	2,381
Liabilities		
Trust pass-through securities - held at amortized cost	135	122
Subordinated borrowings - held at amortized cost	44	62
Borrowings held at amortized cost	11,003	11,291

Financial instruments for which carrying value approximates fair value

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.

17. Deferred expenses and rebates

EUR millions	Dec. 31, 2013	Dec. 31, 2012
DPAC for insurance contracts and investment contracts with discretionary participation features	11,189	10,681
Deferred cost of reinsurance	496	558
Deferred transaction costs for investment management services	356	405
Total deferred expenses and rebates	**12,040**	**11,644**

18. Share capital

EUR millions	Dec. 31, 2013	Dec. 31, 2012
Share capital - par value	325	319
Share premium	8,375	8,780
Total share capital	**8,701**	**9,099**

Share capital - par value		
Balance at January 1	319	310
Issuance	84	2
Withdrawal	(82)	-
Share dividend	5	7
Balance	**325**	**319**
Share premium		
Balance at January 1	8,780	8,787
Withdrawal	(400)	-
Share dividend	(5)	(7)
Balance	**8,375**	**8,780**

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On February 15, 2013, Aegon and Vereniging Aegon (the Association) announced their agreement to cancel all of Aegon s preferred shares, of which the Association was the sole owner. Following the approval of the new capital structure by the Annual General Meeting of Shareholders on May 15, 2013, Aegon has exchanged all preferred shares for EUR 400 million in cash, the equivalent of EUR 655 million in common shares and EUR 83 million of dividends on the preferred shares.

Based on the volume-weighted average price of Aegon common shares on Euronext Amsterdam from February 15 up to, and including, February 28, 2013, of EUR 4.86, the preferred shares were converted into 121 million common shares and 566 million common shares B. Following the conversion, the Association holds a total of 293 million common shares and 566 million common shares B.

In addition, in the second quarter of 2013, Vereniging Aegon exercised its option right to purchase 13 million common shares B for EUR 0.1275 per share to correct the dilution caused by the issuance of shares bringing the total of common shares B held by Vereniging Aegon at 579 million.

Basic and diluted earnings per share

EUR millions	Q4 2013	Q4 2012	FY 2013	FY 2012
Earnings per share (EUR per share)				
Basic earnings per common share	0.06	0.20	0.29	0.70
Basic earnings per common share B	-	-	0.01	-
Diluted earnings per common share	0.06	0.20	0.29	0.70
Diluted earnings per common share B	-	-	0.01	-
Earnings per share calculation				
Net income attributable to equity holders of Aegon N.V.	173	431	846	1,581
Preferred dividend	-	-	(83)	(59)
Coupons on other equity instruments	(47)	(49)	(167)	(195)
Earnings attributable to common shares and common shares B	126	382	596	1,327
Earnings attributable to common shareholders	125	382	593	1,327
Earnings attributable to common shareholders B	1	-	3	-
Weighted average number of common shares outstanding (in million)	2,090	1,943	2,035	1,907
Weighted average number of common shares B outstanding (in million)	579	-	366	-

Diluted earnings per share is calculated by adjusting the average number of shares outstanding for share options. During 2013 and 2012, the average share price did not exceed the exercise price of these options. As a result, diluted earnings per share do not differ from basic earnings per share.

Dividend

It will be proposed to the Annual General Meeting of Shareholders on May 21, 2014, absent unforeseen circumstances, to pay a dividend for the year 2013 of EUR 0.22 per common share. After taking into account the interim dividend 2013 of EUR 0.11 per common share, this will result in a final dividend of EUR 0.11 per common share. Dividend for the year and final dividend 2013 per common share B are EUR 0.0055 and EUR 0.0028 respectively. The interim dividend 2013 was paid in cash or stock at the election of the shareholder. Stock dividend amounts to one new Aegon common share for every 50 common shares held. The stock dividend and cash dividend are approximately equal in value. The interim dividend was payable as of September 13, 2013. The interim dividend 2013 for common shares B is EUR 0.0028, fully paid in cash.

The Annual General Meeting of Shareholders on May 15, 2013, approved a final dividend over 2012 payable in either cash or stock related to the second half of 2012, paid in the first half of 2013. The cash dividend amounted to EUR 0.11 per common share, and the stock dividend amounted to one new Aegon common share for every 47 common shares held. The stock dividend and cash dividend are approximately equal in value. No dividends were paid on common shares B.

Unaudited 31

Approximately 55% of shareholders have elected to receive the cash dividend. The remaining 45% have opted for stock dividend. Aegon repurchased common shares to neutralize the dilutive effect of the 2013 interim dividend paid in shares. Between September 17, 2013, and October 14, 2013, 19,047,358 common shares were repurchased under the share buyback program, at an average price of EUR 5.6233 per share.

19. Borrowings

EUR millions	Dec. 31, 2013	Dec. 31, 2012
Debentures and other loans	11,830	13,219
Commercial paper	135	413
Short-term deposits	16	17
Bank overdrafts	39	93
Total borrowings	**12,020**	**13,742**

Debentures and other loans

Included in Debentures and other loans is EUR 1,017 million relating to borrowings measured at fair value (2012: EUR 1,050 million).

On March 26, 2013, Aegon signed an agreement with a third party to sell class A mortgage backed securities (RMBS) amounting to EUR 750 million. These securities consist of two tranches:

- EUR 100 million of class A1 notes with an expected weighted average life of two years and priced with a coupon of three month Euribor plus 0.40%; and
- EUR 650 million of class A2 notes with an expected weighted average life of five years and priced with a coupon of three month Euribor plus 0.82%.

On June 3, 2013, Aegon redeemed USD 750 million senior notes (EUR 580 million), which matured.

In August, 2013, Aegon repaid EUR 1,168 million Saecure 6 Mortgage Backed Notes using the first optional redemption date.

Commercial paper, Short-term deposits and Bank overdrafts vary with the normal course of business.

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20. Offsetting, enforceable master netting arrangements and similar agreements

The following table provides details relating to the effect or potential effect of netting arrangements, including rights of 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

EUR millions	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: Financial instruments	Cash collateral received (excluding surplus collateral)	Net amount
Derivatives	13,217	30	13,187	9,728	2,964	496
December 31, 2013	**13,217**	**30**	**13,187**	**9,728**	**2,964**	**496**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

EUR millions	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: Financial instruments	Cash collateral pleged (excluding surplus collateral)	Net amount
Derivatives	10,419	30	10,389	9,885	86	418
December 31, 2013	**10,419**	**30**	**10,389**	**9,885**	**86**	**418**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

EUR millions	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: Financial instruments	Cash collateral received (excluding surplus collateral)	Net amount
Derivatives	20,685	40	20,645	15,267	4,900	478
December 31, 2012	**20,685**	**40**	**20,645**	**15,267**	**4,900**	**478**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

EUR millions	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: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral pleged (excluding surplus collateral)	Net amount
Derivatives	15,335	40	15,295	14,818	136	341
December 31, 2012	**15,335**	**40**	**15,295**	**14,818**	**136**	**341**

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.

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.

21. Commitments and contingencies

KoersPlan

On June 14, 2013, the Supreme Court denied Aegon s appeal and confirmed the ruling of the Court of Appeal from 2011 in the KoersPlan case. Aegon will compensate the approximately 35,000 policyholders of KoersPlan-products who were plaintiffs in the litigation. The provisions recorded are sufficient to cover the compensation for these plaintiffs.

There have been no other material changes in contingent assets and liabilities as reported in the 2012 consolidated financial statements of Aegon.

22. Acquisitions/Divestments

Fidem Life

On February 8, 2013, Aegon closed the acquisition of 100% of Fidem Life, a life insurance company in Ukraine. Fidem Life is rebranded Aegon Ukraine and is integrated into the governance and management structure of Aegon CEE.

Unnim

On May 7, 2013, Aegon has finalized exiting its life, health and pension joint venture with Unnim and sold its 50% stake to Unnim for a total consideration of EUR 353 million. The sale resulted in a book gain of EUR 102 million before tax.

Strategic partnership with Banco Santander

On June 3, 2013, Aegon agreed an exclusive 25-year strategic partnership with Banco Santander, Spain s largest financial group, first announced last December. Under the terms of the agreement, Aegon has acquired a 51% stake in both a life insurance company as well as in a non-life insurance company for a consideration of EUR 220 million. The joint ventures will distribute life and general insurance products through Banco Santander s extensive branch network. Aegon Spain will provide back-office services to the joint venture companies.

Positive Solutions

On June 12, 2013, Aegon UK announced the sale of national independent financial advisor (IFA) Positive Solutions to Intrinsic Financial Services. The loss on the sale amounts to EUR 22 million. The sale is completed in the third quarter.

CAM

On July 19, 2013, the sale of Aegon s 50% stake in its life insurance partnership originally established with Caja de Ahorros del Mediterráneo (CAM), recorded as an associate, was closed. The consideration amounted to EUR 449.5 million and resulted in a book gain of EUR 74 million.

Czech pension company

On December 30, 2013, Aegon Czech Republic has completed the sale of its local pension business. The consideration amounted to EUR 6 million and resulted in a book loss of EUR 7 million.

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Disclaimers

Cautionary note regarding non-IFRS measures

This document includes the non-IFRS financial measures: underlying earnings before tax, income tax and income before tax. These non-IFRS 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 measures is provided in note 3 Segment information of Aegon s Condensed Consolidated Interim Financial Statements. Aegon believes that its non-IFRS measures, together with the IFRS information, provide meaningful information about the underlying operating results of Aegon s business including insight into the financial measures that senior management uses in managing the business.

Local currencies and constant currency exchange rates

This document contains certain information about Aegon s results and financial condition presented in USD for the Americas and 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:

t Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom.
t 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 sovereign exposure that Aegon holds.
t Changes in the performance of Aegon s investment portfolio and decline in ratings of Aegon s counterparties.
t Consequences of a potential (partial) break-up of the euro or the potential independence of Scotland from the United Kingdom.
t The frequency and severity of insured loss events.
t Changes affecting longevity, mortality, morbidity, persistence and other factors that may impact the profitability of Aegon s insurance products.
t Reinsurers to whom Aegon has ceded significant underwriting risks may fail to meet their obligations.
t Changes affecting interest rate levels and continuing low or rapidly changing interest rate levels.
t Changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates.
t 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.
t Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets.
t Changes in laws and regulations, particularly those affecting Aegon s operations, ability to hire and retain key personnel, the products Aegon sells, and the attractiveness of certain products to its consumers.
t Regulatory changes relating to the insurance industry in the jurisdictions in which Aegon operates.
t

Changes in customer behavior and public opinion in general related to, among other things, the type of products also 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, may affect Aegon s reported results and shareholders equity.
- 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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Aegon s Q4 2013 press release and Financial Supplement are available on aegon.com.

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About Aegon

As an international insurance, pensions and asset management company based in The Hague, Aegon has businesses in over 25 markets in the Americas, Europe and Asia. Aegon companies employ over 26,500 people and have millions of customers across the globe. Further information: aegon.com.