

AEGON NV
Form 20-F
March 25, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____

OR

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

Commission file number 1-10882

Aegon N.V.

(Exact name of Registrant as specified in its charter)

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Not Applicable

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

J.H.P.M. van Rossum

Executive Vice President and Corporate Controller

Aegon N.V.

Aegonplein 50, 2501 CB The Hague, The Netherlands

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Jurgen.vanRossum@aegon.com

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

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

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:
2,094,630,321 common shares and 581,325,720 common shares B

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

☒ Yes ☐ No

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

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

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

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

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

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

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

☐ Item 17 ☐ Item 18

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

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3

Introduction**Filing**

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

About this report

This report serves as Aegon's Annual Report for the year ended December 31, 2015. It presents the consolidated financial statements of Aegon (pages 126-288) and the stand-alone financial statements of Aegon N.V. (pages 290-304), both prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and Part 9 of Book 2 of the Dutch Civil Code.

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

Presentation of certain information

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

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

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

of interest rate risk (fair value macro hedges) in accordance with the EU carve out version of IAS 39. Under IFRS, hedge accounting for fair value macro hedges cannot be applied to mortgage loans and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket.

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

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

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4 Strategic information [CEO letter](#)

[CEO letter](#)

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

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

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

[Adapting to change](#)

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

[Transforming our business](#)

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

[Focusing on value creation](#)

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

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Navigating a complex regulatory landscape

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

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

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

Our communities and our employees

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

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

Looking to the future

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

Thank you for your support and interest in our company.

Alex Wynaendts

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

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

[Composition of the Executive Board and the Management Board](#)

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

[Chief Executive Officer](#)

[Chairman of the Executive Board](#)

[Chairman of the Management Board](#)

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

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

[Chief Financial Officer](#)

[Member of the Executive Board](#)

[Member of the Management Board](#)

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

Adrian Grace (1963, British)

Chief Executive Officer of Aegon UK

Member of the Management Board

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

Tom Grondin (1969, Canadian)¹

Chief Risk Officer of Aegon N.V.

Member of the Management Board

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

¹ Tom Grondin was appointed as Chief Financial Officer, Aegon Asia, effective January 1, 2016. Allegra van Hövell-Patrizi joined Aegon on January 1, 2016 as Group Chief Risk Officer, and member of the Management Board.

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Marco Keim (1962, Dutch)

Chief Executive Officer of Aegon the Netherlands

Member of the Management Board

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

Gábor Kepecs (1954, Hungarian)

Chief Executive Officer of Aegon Central & Eastern Europe

Member of the Management Board

Gábor Kepecs began his career with the Hungarian government before joining former state-owned insurance company Állami Biztosító. He was appointed CEO in 1990, two years before Állami Biztosító was privatized and acquired by Aegon. Mr. Kepecs was the CEO of Aegon Hungary from 1992 to 2009, during which time he headed the expansion of Aegon's businesses not only in Hungary, but also across the Central & Eastern European region. Mr. Kepecs has been a member of Aegon's Management Board since 2008.

Mark Mullin (1963, American)

Chief Executive Officer of Aegon Americas

Member of the Management Board

Mark Mullin has spent more than 20 years with Aegon in various investment and business management positions in both the United States and Europe. Mr. Mullin has served as President and CEO of one of Aegon's US subsidiaries, Diversified Investment Advisors, and as head of the Company's annuity and mutual fund businesses. He was named

President of Aegon Americas in 2009, and became President and CEO of Aegon Americas and a member of the Management Board in 2010.

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8 Strategic information *Aegon's strategy*

Aegon's strategy

Achievements since 2011

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

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

Key drivers for change

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

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

Aegon's ambition

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

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

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

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

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Aegon's strategic objectives

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

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

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

Acquisitions & divestments

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

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10 Business overview [History and development of Aegon](#)

[Business overview](#)

[History and development of Aegon](#)

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

Aegon's history dates back over 170 years. Aegon N.V. was formed in 1983 through the merger of AGO and Ennia, both of which were successors to insurance companies founded in the 1800s.

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

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

Aegon has the following reportable operating segments: the Americas, which includes the United States, Mexico and Brazil; the Netherlands; the United Kingdom; and New Markets, which includes a number of countries in Central & Eastern Europe and Asia, as well as Spain, Portugal, and the reporting units Variable Annuities Europe and Aegon Asset Management.

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Selected financial data

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

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

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

A summary of historical financial data is provided in the table below. It is important to read this summary in conjunction with the consolidated financial statements and related notes (see pages 126-288) of this Annual Report.

Selected consolidated income statement information

In EUR million (except per share amount)

Amounts based upon IFRS

	2015	2014	2013	2012	2011
Premium income	20,311	19,864	19,939	19,049	19,521
Investment income	8,525	8,148	7,909	8,413	8,167
Total revenues ¹⁾	31,289	30,157	29,805	29,327	29,159
Income/ (loss) before tax	873	889	1,189	2,005	1,027
Net income/ (loss)	712	757	989	1,633	936
Earnings per common share					
Basic	0.27	0.29	0.36	0.72	(0.03)
Diluted	0.27	0.29	0.36	0.72	(0.03)
Earnings per common share B					
Basic	0.01	0.01	0.01	-	-
Diluted	0.01	0.01	0.01	-	-

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

Selected consolidated balance sheet information

In million EUR (except per share amount)

Amounts based upon IFRS

	2015	2014	2013	2012	2011
Total assets	417,175	424,467	351,860	363,063	343,155
Insurance and investment contracts	343,558	321,384	283,234	277,596	272,105
Borrowings including subordinated and trust pass-through securities	13,361	15,049	12,009	13,416	9,377
Shareholders' equity	23,688	23,957	17,694	21,037	17,545

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

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

Number of common shares B

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

Dividends

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

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

Year	EUR per common share ¹⁾			USD per common share ¹⁾		
	Interim	Final	Total	Interim	Final	Total
2011	-	0.10	0.10	-	0.13	0.13
2012	0.10	0.11	0.21	0.12	0.14	0.26
2013	0.11	0.11	0.22	0.15	0.15	0.30
2014	0.11	0.12	0.23	0.15	0.13	0.28

2015	0.12	0.13 ²⁾	0.25	0.13
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¹ Paid at each shareholder's option in cash or in stock.

² Proposed.

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

no other dividend was paid on the preferred shares. This resulted in a rate of 2.75% for the year 2012. Applying this rate to the weighted average paid-in capital of its preferred shares during 2012, the total amount of annual dividends Aegon made in 2013 on its preferred shares for the year 2012 was EUR 59 million. In addition, Aegon paid a 2013 interim dividend on the preferred shares of EUR 24 million, covering the period from January 1, 2013 until the cancellation of all preferred shares in May 2013.

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Exchange rates

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

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

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

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

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

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

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

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14 Business overview **Business lines**

Business lines

Americas

↳ **United States - Life & Protection**

↳ **Life insurance**

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

↳ **Accident and health insurance**

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

↳ **United States - Investments & Retirement**

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

↳ **Latin America**

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

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

The Netherlands

↳ **Life & Savings**

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

↳ **Pensions**

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

↳ **Non-life**

General insurance, consisting mainly of automotive, liability, disability, household insurance, and fire protection.

↳ **Distribution**

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

United Kingdom

↳ **Life**

Immediate annuities, individual protection products, such as term insurance, critical illness, and income protection.

↳ **Pensions**

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

New Markets

Includes all businesses and operating units in Central & Eastern Europe, Asia, Spain and Portugal, in addition to Aegon's variable annuity activities in Europe and Aegon Asset Management.

↳ **Central & Eastern Europe**

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

↳ **Spain & Portugal**

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

↳ **Asia**

Joint ventures in China and India offering (term) life insurance and savings products, and in Japan offering variable annuities. Life insurance marketed to high-net-worth individuals via the Transamerica brand in Hong Kong and Singapore. Direct and affinity products marketed in Asia by Aegon Direct & Affinity Marketing Services.

↳ **Variable Annuities Europe**

Variable annuities offered by Aegon companies operating in Europe, and international/offshore bonds for the UK market.

Aegon Asset Management

Asset management products, including equity and fixed income, covering third-party clients, insurance-linked solutions, and Aegon's own insurance companies.

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In January 2016, Aegon announced that it had changed its reporting structure going forward. The new reporting structure will consist of four business lines: Americas, Europe (consisting of the Netherlands; United Kingdom, including Variable Annuities Europe; Central & Eastern Europe; and Spain & Portugal), Asia and Aegon Asset Management. Furthermore, rather than report its financial results by division, Aegon Americas will report by using the following product groups:

- ⌚ Life
- ⌚ Accident & Health
- ⌚ Retirement Plans
- ⌚ Mutual Funds
- ⌚ Variable Annuities
- ⌚ Fixed Annuities
- ⌚ Stable Value Solutions
- ⌚ Latin America

The new reporting structure is effective from January 1, 2016. For this reason, Aegon's 2015 Annual Report on Form 20-F reflects the former reporting structure.

Table of Contents**16 Business overview Results of operations Worldwide****Results of operations****Results 2015 worldwide****Underlying earnings geographically**

Amounts in EUR millions

Net underlying earnings

Tax on underlying earnings

Underlying earnings before tax geographically

Americas

The Netherlands

United Kingdom

New markets

Holding and other activities

Underlying earnings before tax

Fair value items

Gains / (losses) on investments

Net impairments

Other income / (charges)

Run-off businesses

Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)*Income tax from certain proportionately consolidated joint ventures and associates included in income before tax**Income tax**Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax***Net income**

Commissions and expenses

of which operating expenses

2015	2014	%
1,552	1,416	10%
387	449	(14%)
1,200	1,134	6%
537	558	(4%)
125	115	9%
236	196	20%
(161)	(138)	(17%)
1,939	1,865	4%
(500)	(1,366)	63%
346	697	(50%)
49	(34)	-
(980)	(240)	-
52	(21)	-
906	900	1%
33	10	-
(194)	(143)	(36%)
(33)	(10)	-
712	757	(6%)
6,802	5,892	15%
3,734	3,312	13%

This Annual Report includes the non-IFRS financial measure: underlying earnings before tax. The reconciliation of this measure to the most comparable IFRS measure is presented in the table above in addition to in note 5 Segment information of the consolidated financial statements. This non-IFRS measure is calculated by consolidating on

a proportionate basis the revenues and expenses of Aegon's joint ventures in the Netherlands, Mexico, Spain, Portugal, China and Japan and Aegon's associates in India, Brazil, the Netherlands, United Kingdom and Mexico.

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

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

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New life sales

Amounts in EUR millions

	2015	2014	%
Americas	599	552	9%
The Netherlands	130	251	(48%)
United Kingdom	911	972	(6%)
New markets	304	271	12%
Total recurring plus 1/10 single	1,944	2,045	(5%)

Gross deposits (on and off balance)

Amounts in EUR millions

	2015	2014	%
Americas	36,999	31,849	16%
The Netherlands	5,137	2,781	85%
United Kingdom	307	281	9%
New markets	34,761	20,519	69%
Total gross deposits	77,205	55,431	39%

**Worldwide
revenues
geographically
2015**

Amounts in EUR millions	Americas	The Nether- lands	United Kingdom	New Markets	Holding, other activities and elimina- tions	Segment total	Associ- ates and Joint Ventures elimina- tions	Consoli- dated
Total life insurance gross premiums	7,046	2,240	5,650	2,565	(102)	17,400	(431)	16,969
Accident and health insurance premiums	2,266	234	47	170	-	2,717	(14)	2,703
General insurance premiums	-	473	-	244	2	720	(80)	640
Total gross premiums	9,312	2,947	5,697	2,979	(100)	20,836	(524)	20,311
Investment income	3,680	2,277	2,327	291	2	8,576	(51)	8,525
Fees and commission income	1,704	351	43	813	(278)	2,633	(195)	2,438

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Other revenue	9	-	-	2	7	19	(5)	14
Total revenues	14,705	5,575	8,067	4,086	(369)	32,064	(775)	31,289
Number of employees, including agent employees	12,701	4,503	2,260	11,767	299	31,530		

Underlying earnings before tax by line of business

Amounts in EUR millions

	2015	2014	%
Life	757	652	16%
Individual Savings & Retirement	540	665	(19%)
Pensions	594	510	16%
Non-life	17	46	(62%)
Distribution	22	15	50%
Asset management	170	115	48%
Other	(161)	(138)	(17%)
Underlying earnings before tax	1,939	1,865	4%

Table of Contents**18 Business overview Results of operations Worldwide****Results 2015 worldwide**

Aegon's net income in 2015 declined to EUR 712 million. Underlying earnings before tax increased to EUR 1,939 million, driven by favorable currency movements. Results in 2015 were impacted by a loss of EUR 500 million on fair value items, which was driven by accounting losses on hedging programs and the impact of assumption changes. Other charges amounted to EUR 980 million, mainly driven by the loss on the divestment of the Canadian life insurance activities and the impact of model updates. This loss was partly offset by realized gains of EUR 346 million, and net recoveries of EUR 49 million.

Net income

Net income declined by 6% to EUR 712 million compared with 2014 as lower losses on fair value items and net recoveries were more than offset by higher other charges and lower realized gains.

Underlying earnings before tax

Aegon's underlying earnings before tax in 2015 increased by 4% to EUR 1,939 million compared with 2014. The recurring impact of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015 and adverse claims experience in the United States were more than offset by favorable currency movements.

- ⌚ Underlying earnings before tax from the Americas increased by 6% to EUR 1,200 million in 2015 compared with 2014. The impact of the stronger US dollar more than offset adverse claims experience and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015.
- ⌚ In the Netherlands, underlying earnings before tax declined by 4% to EUR 537 million in 2015 compared with 2014, as underlying earnings before tax in 2014 included a EUR 45 million employee benefit release resulting from legislation changes in the Netherlands. Excluding this benefit, earnings increased by 5%, primarily driven by lower funding costs and higher investment income.
- ⌚ Underlying earnings before tax from Aegon's operations in the United Kingdom were up 9% to EUR 125 million in 2014, mainly due to favorable currency movements.
- ⌚ Underlying earnings before tax from New Markets increased by 20% to EUR 236 million compared with 2014, as the positive impact of higher performance fees and third-party assets under management at Aegon Asset Management more than offset lower earnings from Central & Eastern Europe primarily driven by the negative impact of higher surrenders in Poland following product changes.
- ⌚ Total holding costs increased by 17% to EUR 161 million in 2015 compared with 2014. This was mainly as a result of higher net interest costs following a debt issuance to refinance a perpetual security for which the cost was previously accounted for directly through shareholders' equity and a gain related to interest on tax.

Fair value items

The results from fair value items amounted to a loss of EUR 500 million. The loss was mainly driven by adverse results on hedging programs in the United States (EUR 521 million) and the underperformance of alternative

investments in the United States (EUR 171 million) partly offset by the result on derivatives where no hedge accounting is applied in the Netherlands (EUR 120 million) and the positive impact of assumption changes (EUR 101 million).

Included in the loss on hedging programs in the United States is the loss on fair value hedges without accounting match in the Americas (EUR 402 million). This was mainly driven by the loss on equity and interest rate hedges, which were set up to protect Aegon's capital position.

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

Realized gains on investments

Realized gains on investments amounted to EUR 346 million, and were primarily related to a rebalancing of the fixed income portfolio in the Netherlands and the United Kingdom to improve Aegon's capital position under Solvency II.

Impairment charges

Net recoveries improved by EUR 83 million to EUR 49 million in 2015 compared with 2014. In the United States, gross impairments were more than offset by recoveries mostly related to investments in subprime residential mortgage-backed securities.

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Other charges

Other charges amounted to EUR 980 million. These were mostly caused by the loss on the divestment of the Canadian life insurance activities (EUR 751 million) and charges related to model updates (EUR 205 million).

Run-off businesses

The results of run-off businesses improved to EUR 52 million, as the 2014 result included a negative impact from model updates of EUR 32 million.

Income tax

Income tax amounted to EUR 194 million. The effective tax rate on underlying earnings and total income for 2015 was 20% and 21%, respectively. This was mostly driven by tax credits related to solar energy investments in the United States.

Commissions and expenses

Commissions and expenses increased by 15% in 2015 compared with 2014 to EUR 6.8 billion. Operating expenses increased by 13% in 2015 compared with 2014 to EUR 3.7 billion. Adverse currency movements and higher defined benefit expenses in the Netherlands more than offset lower project and transformation costs in the UK and the positive impact of the divestment of the Canadian life insurance activities.

Production

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

Capital management

During 2015, shareholders' equity decreased by EUR 0.3 billion to EUR 23.7 billion, as retained earnings and favorable currency exchange rates were more than offset by the book loss on the sale of the Canadian life insurance

activities and higher interest rates, which resulted in lower revaluation reserves. During the year, the revaluation reserves decreased by

EUR 1.8 billion to EUR 6.5 billion. Aegon's shareholders' equity, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 18.7 billion on December 31, 2015, or 8.86 per common share. The gross leverage ratio improved to 27.0% on December 31, 2015, compared with the end of 2014, which was mostly as a result of earnings generated during the year. The negative impact on the gross leverage ratio of the book loss on the sale of the Canadian life insurance activities was offset by the redemption of the USD 500 million senior bond, which matured on December 8, 2015. Excess capital in the holding increased from EUR 1.2 billion at the end of 2014 to EUR 1.4 billion on December 31, 2015, as dividends from business units and proceeds from divestments were partly offset by the impact of cash used for deleveraging, dividends to shareholders, interest payments and operating expenses.

During 2015, Aegon's Insurance Group Directive (IGD) ratio increased from 208% at the end of 2014 to 220% on December 31, 2015. The increase reflects positive retained earnings during the year, in addition to the impact of divestments. On March 3, 2015, Aegon completed the sale of its 35% share in La Mondiale Participations to La Mondiale for EUR 350 million. Furthermore, on July 31, 2015, Aegon completed the sale of its Canadian operations to Wilton Re for CAD 600 million (EUR 428 million). The capital in excess of the S&P AA threshold in the United States decreased from USD 1.1 billion at the end of 2014 to USD 0.2 billion on December 31, 2015, as dividends paid to the holding were offset by earnings, while the RBC ratio in the United States decreased from 540% at year-end 2014 to ~460% on December 31, 2015. The decrease in the United States primarily reflected market conditions and the impact of assumption changes and model updates implemented during the third quarter. In the Netherlands, the IGD ratio, excluding Aegon Bank, increased from 215% on December 31, 2014, to ~240% at the end of 2015 due to earnings generated during the year. The Pillar 1 ratio in the United Kingdom, including the with-profit fund, increased from 140% at the end of 2014 to ~165% at the end of 2015 due to earnings and changes to longevity assumptions in the fourth quarter.

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

Dividends from and capital contributions to business units

Aegon received EUR 1.1 billion of dividends from its business units during 2015, almost all of which from the Americas. Aegon spent EUR 0.3 billion on capital contributions and acquisitions in New Markets.

Table of Contents**20 Business overview Results of operations Worldwide****Results 2014 worldwide****Underlying earnings geographically**

Amounts in EUR millions	2014	2013	%
Net underlying earnings	1,416	1,531	(8%)
Tax on underlying earnings	449	437	3%

Underlying earnings before tax geographically

Americas	1,134	1,314	(14%)
The Netherlands	558	454	23%
United Kingdom	115	87	32%
New markets	196	227	(13%)
Holding and other activities	(138)	(113)	(22%)
Underlying earnings before tax	1,865	1,968	(5%)

Fair value items	(1,366)	(1,118)	(22%)
Gains / (losses) on investments	697	500	39%
Net impairments	(34)	(122)	72%
Other income / (charges)	(240)	(52)	0%
Run-off businesses	(21)	21	0%

Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	900	1,197	(25%)
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<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>10</i>	<i>8</i>	<i>33%</i>
Income tax	(143)	(208)	31%

<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>(10)</i>	<i>(8)</i>	<i>(33%)</i>
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Net income	757	989	(23%)
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Commissions and expenses	5,892	5,873	0%
of which operating expenses	3,312	3,273	1%

New life sales

Amounts in EUR millions	2014	2013	%
Americas	552	464	19%
The Netherlands	251	206	22%
United Kingdom	972	1,014	(4%)
New markets	271	228	19%
Total recurring plus 1/10 single	2,045	1,911	7%

Gross deposits (on and off balance)

Amounts in EUR millions	2014	2013	%
Americas	31,849	28,424	12%
The Netherlands	2,781	1,338	108%
United Kingdom	281	281	(0%)
New markets	20,519	14,287	44%
Total gross deposits	55,431	44,330	25%

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Underlying earnings before tax by line of business

Amounts in EUR millions	2014	2013	%
Life	652	1,003	(35%)
Individual Savings & Retirement	665	487	37%
Pensions	510	471	8%
Non-life	46	12	-
Distribution	15	16	(8%)
Asset management	115	95	21%
Other	(138)	(115)	20%
Underlying earnings before tax	1,865	1,968	(5%)

Table of Contents**22 Business overview Results of operations Worldwide****Results 2014 worldwide**

Aegon's net income in 2014 amounted to EUR 757 million. Underlying earnings before tax amounted to EUR 1,865 million. Furthermore, results in 2014 were impacted by a loss of EUR 1,366 million on fair value items, which was driven by accounting losses on hedging programs and the impact of assumption changes and model updates, and other charges of EUR 240 million. This was partly offset by realized gains of EUR 697 million, and net impairment charges of EUR 34 million.

Net income

Net income decreased to EUR 757 million compared with 2013, which was driven by lower underlying earnings before tax, higher other charges, higher losses from fair value items and lower income before tax from run-off businesses, partly offset by higher realized gains and lower net impairments.

Underlying earnings before tax

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

- ❧ Underlying earnings before tax from the Americas decreased 14% to EUR 1,134 million in 2014 compared with 2013. Growth in variable annuities and pensions was more than offset by the impact of a charge for actuarial assumption changes and model updates, unfavorable mortality in the life business and the impact of lower interest rates.
- ❧ In the Netherlands, underlying earnings before tax increased 23% to EUR 558 million in 2014 compared with 2013, primarily generated by mortgage production. Underlying earnings before tax growth in 2014 was driven by higher investment income, improved margins on savings, a EUR 45 million employee benefit reserve release resulting from legislation changes in the Netherlands, and improvement in non-life.
- ❧ Underlying earnings before tax from Aegon's operations in the United Kingdom amounted to EUR 115 million in 2014. The 32% increase compared with 2013 was primarily the result of improved persistency.
- ❧ Underlying earnings before tax from New Markets declined 14% to EUR 196 million compared with 2013. A 21% increase in underlying earnings before tax, compared with 2013, from Aegon Asset Management due to higher third-party balances was more than offset by lower underlying earnings before tax in Asia, which was mostly due to charges for actuarial assumption changes and model updates.
- ❧ Total holding costs increased 22% to EUR 138 million in 2014 compared with 2013. This was mainly as a result of higher net interest costs following a debt issuance to refinance a perpetual security for which the cost was previously accounted for directly through shareholders' equity.

Fair value items

The results from fair value items amounted to a loss of EUR 1,366 million. The loss was mainly driven by adverse results on hedging programs in the United States (EUR 301 million), adverse fair value movements on interest rate hedges, longevity hedges and result on derivatives where no hedge accounting is applied in the Netherlands (EUR 739 million), the adverse impact of assumption changes and model updates (EUR 123 million), and the

underperformance of alternative investments in the United States (EUR 90 million).

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

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

Realized gains on investments

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

Impairment charges

Net impairments improved by EUR 88 million to EUR 34 million in 2014 compared with 2013. In the United States, gross impairments were more than offset by recoveries mostly related to investments in subprime residential mortgage-backed securities.

Other charges

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

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Run-off businesses

The results of run-off businesses amounted to a loss of EUR 21 million, mainly driven by a negative impact from model updates of EUR 32 million.

Income tax

Income tax amounted to EUR 143 million. The effective tax rate on underlying earnings for 2014 was 24%. The effective tax rate on total income was 16%. This was mostly driven by the combined effects of negative fair value items taxed at nominal rates, the reversal of the tax charge in Americas in 2013 related to hedging losses, tax credits and tax exempt items.

Commissions and expenses

Commissions and expenses increased slightly in 2014 compared with 2013 to EUR 5,892 million. Operating expenses increased 1% in 2014 compared with 2013 to EUR 3,312 million. This was mainly because the benefit of an employee benefit reserve release in the Netherlands (EUR 45 million) was more than offset by a provision and expenses related to implementing the upcoming fee cap on pensions in the United Kingdom, and higher expenses to support growth in the United States and the Netherlands.

Production

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

Capital management

In 2014, shareholders' equity increased EUR 6.3 billion compared with December 31, 2013 to EUR 24.0 billion. This was driven by lower interest rates, which resulted in higher revaluation reserves, and favorable currency exchange rates. During the year, the revaluation reserves increased by EUR 5.3 billion to EUR 8.3 billion. Aegon's shareholders' equity, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 17.3 billion on

December 31, 2014.

The gross leverage ratio improved to 28.7% on December 31, 2014 compared to the end of 2013, which was mostly as a result of deleveraging. Excess capital in the holding decreased to EUR 1.2 billion on December 31, 2014 compared to 2013 (EUR 2.2 billion), as dividends from business units were more than offset by the impact of cash used for deleveraging, interest payments and operating expenses.

Shareholders' equity per common share, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 8.18 on December 31, 2014.

On December 31, 2014, Aegon's Insurance Group Directive (IGD) ratio stood at 208%. The capital in excess of the S&P AA threshold in the United States remained stable at USD 1.1 billion, as dividends paid to the holding were offset by earnings. The RBC ratio in the United States was ~540% at year-end 2014. In the Netherlands, the IGD ratio, excluding Aegon Bank, was ~215%. The Pillar 1 ratio in the United Kingdom, including the with-profit fund, was approximately 140% at the end of 2014 reflecting the negative impact of de-risking of the asset portfolio in preparation for Solvency II.

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

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

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

Dividends from and capital contributions to business units

Aegon received EUR 1.1 billion of dividends from its business units during 2014, almost all of which from the Americas. Capital contributions of EUR 0.1 billion were paid to Aegon's businesses in New Markets.

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	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Net underlying earnings	1,045	1,082	(3%)	941	814	16%
Tax on underlying earnings	287	424	(32%)	259	320	(19%)
Underlying earnings before tax by business						
Life insurance	213	(13)	-	192	(10)	-
Accident & health insurance	140	212	(34%)	126	160	(21%)
Life & Protection	353	199	77%	318	150	112%
Retirement plans	261	272	(4%)	235	205	15%
Mutual funds	50	47	6%	45	35	26%
Variable annuities	501	671	(25%)	452	505	(11%)
Fixed annuities	66	172	(62%)	59	130	(54%)
Stable value solutions	101	109	(8%)	91	82	11%
Investments & retirement	978	1,271	(23%)	881	957	(8%)
Canada	-	30	-	-	23	-
Latin America	1	5	(72%)	1	4	(67%)
Underlying earnings before tax	1,332	1,506	(12%)	1,200	1,134	6%
Fair value items	(654)	(661)	1%	(589)	(497)	(18%)
Gains / (losses) on investments	(83)	113	-	(74)	85	-
Net impairments	79	27	189%	71	21	-
Other income / (charges)	(1,041)	(69)	-	(938)	(52)	-
Run-off businesses	58	(28)	-	52	(21)	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(308)	889	-	(277)	669	-
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	5	4	39%	5	3	66%
Income tax	35	(105)	-	31	(79)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(5)	(4)	(39%)	(5)	(3)	(66%)
Net income	(273)	784	-	(246)	590	-

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Life insurance gross premiums	7,821	8,585	(9%)	7,046	6,461	9%
Accident and health insurance premiums	2,515	2,490	1%	2,266	1,874	21%
Total gross premiums	10,336	11,074	(7%)	9,312	8,334	12%
Investment income	4,085	4,401	(7%)	3,680	3,312	11%
Fees and commission income	1,891	1,974	(4%)	1,704	1,485	15%
Other revenues	11	3	-	9	2	-
Total revenues	16,322	17,453	(6%)	14,705	13,134	12%
Commissions and expenses	4,529	4,446	2%	4,080	3,346	22%
of which operating expenses	1,843	1,871	(2%)	1,660	1,408	18%

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

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

	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Gross deposits (on and off balance)						
Life & Protection	7	9	(20%)	6	7	(4%)
Retirement plans	27,833	26,736	4%	25,075	20,121	25%
Mutual funds	5,084	4,879	4%	4,580	3,672	25%
Variable annuities	7,857	10,235	(23%)	7,079	7,702	(8%)
Fixed annuities	276	323	(15%)	249	243	2%
Investment & retirement	41,051	42,173	(3%)	36,983	31,738	17%
Canada	-	121	-	-	91	-
Latin America	12	18	(35%)	10	14	(22%)
Total gross deposits	41,069	42,321	(3%)	36,999	31,849	16%

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

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The net loss in 2015 was USD 273 million, primarily the result of the book loss on the divestment of Canada of USD 837 million. Underlying earnings before tax decreased to USD 1.3 billion compared with 2014. This was mainly driven by adverse claims experience and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015. Gross deposits and new life sales declined to USD 41.1 billion and USD 665 million respectively, due to product adjustments to improve profitability, while new premium production for accident & health insurance was down to USD 1.0 billion.

Net loss

The net loss amounted to USD 273 million in 2015, primarily the result of the book loss on the divestment of Aegon's Canadian life insurance business of USD 837 million. Results on fair value items amounted to a loss of USD 654 million, which was primarily related to the impact on hedging programs as a result of lower interest rates and higher equity markets. Realized losses on investments amounted to USD 83 million, and were mainly related to investments in emerging markets and the energy sector. Net impairments improved compared with 2014 to a benefit of USD 79 million as recoveries, which were mostly related to investments in subprime residential mortgage-backed securities, more than offset gross impairments. Other charges were USD 1.0 billion, and were primarily related to the divestment of Aegon's Canadian business and model updates.

Underlying earnings before tax

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

- ⌚ Underlying earnings before tax from Life & Protection increased by 77% compared with 2014 to USD 353 million. This is due to lower charges for assumption changes more than offsetting unfavorable mortality and morbidity, the impact of lower interest rates and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015. The earnings impact of the updates in 2015 was primarily caused by long-term care.
- ⌚ Investments & Retirement underlying earnings before tax declined by 23% to USD 978 million compared with 2014, which was caused by higher charges for actuarial assumption changes and margin pressure. Retirement plans underlying earnings before tax were down 4% to USD 261 million in 2015 compared with 2014, primarily driven by lower general account pension liabilities and margin pressure arising from the competitive environment on fees. Underlying earnings before tax from variable annuities declined by 25% to USD 501 million compared with 2014 as a result of the negative impact from actuarial assumption changes of USD 2 million in 2015, while 2014 included a benefit of USD 174 million. Underlying earnings before tax from mutual funds increased by 6% to USD 50 million, mainly driven by favorable markets. Fixed annuity underlying earnings before tax were down 62% to USD 66 million compared with 2014, as the product is no longer actively sold. Furthermore, underlying earnings

before tax from fixed annuities were adversely impacted by assumption changes amounting to USD 65 million.

Commissions and expenses

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

Production

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

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

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Results 2014 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Net underlying earnings	1,082	1,280	(15%)	814	965	(16%)
Tax on underlying earnings	424	464	(9%)	320	349	(8%)
Underlying earnings before tax by business						
Life insurance	(13)	469	-	(10)	353	-
Accident & health insurance	212	254	(17%)	160	191	(16%)
Life & Protection	199	719	(72%)	150	542	(72%)
Retirement plans	272	239	14%	205	180	14%
Mutual funds	47	33	42%	35	25	40%
Variable annuities	671	414	62%	505	312	62%
Fixed annuities	172	215	(20%)	130	162	(20%)
Stable value solutions	109	110	(1%)	82	83	(1%)
Investments & retirement	1,271	1,011	26%	957	762	26%
Canada	30	4	-	23	3	-
Latin America	5	9	(44%)	4	7	(43%)
Underlying earnings before tax	1,506	1,744	(14%)	1,134	1,314	(14%)
Fair value items	(661)	(1,300)	49%	(497)	(980)	49%
Gains / (losses) on investments	113	145	(22%)	85	110	(23%)
Net impairments	27	(58)	-	21	(44)	-
Other income / (charges)	(69)	95	-	(52)	72	-
Run-off businesses	(28)	28	-	(21)	21	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	889	655	36%	669	493	36%
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	4	4	-	3	3	-
Income tax	(105)	(115)	9%	(79)	(86)	8%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(4)	(4)	-	(3)	(3)	-
Net income	784	540	45%	590	407	45%

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Life insurance gross premiums	8,585	8,212	5%	6,461	6,187	4%
Accident and health insurance premiums	2,49	2,372	5%	1,874	1,787	5%
Total gross premiums	11,074	10,584	5%	8,334	7,974	5%
Investment income	4,401	4,473	(2%)	3,312	3,370	(2%)
Fees and commission income	1,974	1,689	17%	1,485	1,273	17%
Other revenues	3	6	(50%)	2	4	(50%)
Total revenues	17,453	16,752	4%	13,134	12,622	4%
Commissions and expenses	4,446	4,394	1%	3,346	3,311	1%
of which operating expenses	1,871	1,911	(2%)	1,408	1,440	(2%)

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	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
New life sales						
Life & Protection	615	505	22%	463	380	22%
Canada	75	68	10%	56	51	10%
Latin America	43	42	2%	33	32	3%
Total recurring plus 1/10 single	733	615	19%	552	464	19%

	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
New premium production accident and health insurance	1,193	902	32%	898	680	32%

	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Gross deposits (on and off balance)						
Life & Protection	9	11	(18%)	7	8	(13%)
Retirement plans	26,736	21,238	26%	20,121	16,002	26%
Mutual funds	4,879	4,301	13%	3,672	3,241	13%
Variable annuities	10,235	8,496	20%	7,702	6,402	20%
Fixed annuities	323	552	(41%)	243	416	(41%)
Stable value solutions	-	2,984	-	-	2,248	-
Investment & Retirement	42,173	37,571	12%	31,738	28,309	12%
Canada	121	125	(3%)	91	94	(3%)
Latin America	18	18	-	14	14	-
Total gross deposits	42,321	37,725	12%	31,849	28,424	12%

Exchange rates

	Weighted average rate		Closing rate as of	
	2014	2013	December 31, 2014	December 31, 2013
Per 1 EUR				
USD	1.3288	1.3272	1.2101	1.3780
CAD	1.4667	1.3674	1.4015	1.4641

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Results 2014 Americas

Net income in 2014 amounted to USD 784 million. Underlying earnings before tax decreased to USD 1,506 million compared with 2013. This was mainly because higher earnings from variable annuities and pensions were more than offset by lower earnings in Life & Protection, mostly due to the impact of assumption changes and model updates, and unfavorable mortality. Higher new life sales increased driven by higher universal life products and gross deposits increased driven by successful expansion of distribution.

Net income

Net income increased to USD 784 million in 2014 compared with 2013. Lower underlying earnings before tax, higher other charges, lower income before tax from run-off business and lower realized gains were more than offset by lower losses from fair value items and net reversals of impairments. Results on fair value items amounted to a loss of USD 661 million, which was primarily related to the impact on hedging programs as a result of lower interest rates and higher equity markets. Realized gains on investments amounted to USD 113 million. Net impairments improved compared with 2013 to a benefit of USD 27 million as recoveries, mostly related to investments in subprime residential mortgage-backed securities, more than offset gross impairments. Other charges were USD 69 million, and were primarily related to a provision for the closed block of European direct marketing activities and a write down of fixed assets in Aegon's Canadian business in anticipation of the sale, subject to regulatory approval.

Underlying earnings before tax

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

- ⌚ Underlying earnings before tax from Life & Protection decreased 72% compared to 2013 to USD 199 million as growth from the business was more than offset by the negative impact of assumption changes and model updates (USD 400 million), unfavorable mortality and the impact of lower interest rates. The actuarial assumption updates were primarily related to updated mortality assumptions for the older ages. The model updates were primarily related to changes to modeled premium persistency.
- ⌚ Individual Savings & Retirement underlying earnings before tax increased 35% to USD 891 million compared to 2013. Higher underlying earnings before tax from variable annuities and mutual funds more than offset lower underlying earnings before tax from fixed annuities. Underlying earnings before tax from variable annuities were up 62% to USD 671 million compared to 2013, resulting from the positive impact from actuarial assumption changes and model update of USD 174 million. Excluding this benefit, underlying earnings before tax were up due to higher fee income from higher account balances. Underlying earnings before tax from mutual funds increased 42% to USD 47 million compared to 2013, primarily driven by higher net inflows and favorable markets. Underlying earnings before tax from fixed annuities was down 20% to

USD 172 million compared to 2013 as the product is no longer being actively sold. Furthermore, underlying earnings before tax from fixed annuities was adversely impacted by assumption changes amounting to USD 39 million.

- ⌚ Underlying earnings before tax from Employer Solutions & Pensions increased 9% to USD 381 million in 2014 compared to 2013, primarily driven by higher balances as a result of business growth and favorable markets.
- ⌚ Underlying earnings before tax in Canada amounted to USD 30 million in 2014, compared to USD 4 million in 2013. Increase is primarily driven by adverse impact from actuarial assumption changes and model refinements recorded in 2013. In Latin America underlying earnings before tax were down to USD 5 million.

Commissions and expenses

Commissions and expenses increased by 1% in 2014 to USD 4,446 million compared with 2013. Operating expenses decreased 2% in 2014 to USD 1,871 million compared with 2013, mainly as the benefit of lower restructuring costs more than offset higher expenses driven by growth of the business.

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Production

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

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

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Overview of Americas

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

Aegon USA

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

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

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

Aegon Brazil

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

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

Aegon Mexico

In 2006, Aegon acquired a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. In 2013, Aegon entered into a joint venture with Administradora Akaan S.A. de C.V. to create Akaan-Aegon S.A.P.I. de C.V.

and explore financial service opportunities. This organization is in the start-up phase and will initially focus on third-party asset management. As of December 31, 2015, Aegon Mexico had around 40 employees.

Aegon Canada

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

Organizational structure

Aegon USA

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

Aegon USA's primary insurance subsidiaries are:

- 1 Transamerica Life Insurance Company;
- 2 Transamerica Financial Life Insurance Company;
- 3 Transamerica Advisors Life Insurance Company;
- 4 Transamerica Premier Life Insurance Company; and
- 5 Transamerica Casualty Insurance Company.

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

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

1 Source: A.M. Best.

2 Source: BrandPower Analysis.

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

Overview of sales and distribution channels

Aegon USA

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

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

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

Overview of business lines

Aegon USA

Life & Protection

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

Products

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

Term life insurance

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

Universal life insurance

Universal life insurance is flexible permanent life insurance that offers death benefit protection together with the potential for cash value accumulation. The frequency and amount of premiums, in addition to the death benefit, can be adjusted as a policyholder's circumstances change. A version of this product has secondary guarantees, which guarantee continuation of the life insurance if the customer consistently pays an agreed minimum amount of premium each year. Transamerica withdrew its universal life secondary guarantees product in early 2015, in response to the low and volatile interest rate environment.

Variable universal life insurance

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

Indexed universal life insurance

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

Whole life insurance

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

Supplemental health

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

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A number of these products provide insureds with lump sum or specified income payments if hospitalized or diagnosed with a critical illness. Others pay benefits for specific medical expenses and treatments, or cover deductibles, co-payments and co-insurance amounts not covered by other health insurance. In addition, L&P offers stop-loss insurance to employers to protect against catastrophic losses under self-funded health plans.

Long-term care insurance

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

Life & Protection sales and distribution

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

Independent

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

Partner

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

Worksite

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

Direct-to-consumer

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

Investments & Retirement

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

Investments & Retirement products

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

Mutual funds

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

Variable annuities

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

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

Fixed annuities

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

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Retirement plan services

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

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

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

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

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

Transamerica Stable Value Solutions

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

Investments & Retirement sales and distribution

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

Development Group.

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

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

Latin America

Aegon's business in Latin America comprises a 50% interest in Mongeral Aegon Seguros e Previdência S.A., a Brazilian independent life insurer, and a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. Mongeral Aegon's insurance activities include pension product distribution, individual and group life insurance products, and administrative services. Seguros Argos's primary product is a 20-year term life insurance product. Both insurance companies distribute their products in the worksite market. Aegon is also a 50% owner of a joint venture with Administradora Akaan S.A. de C.V. to create Akaan-Aegon S.A.P.I. de C.V. to explore financial service opportunities. This organization is in the start-up process and will initially focus on third-party asset management.

Run-off businesses

Institutional spread-based business

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

¹ Plansponsor, 2015.

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

Medium-term notes

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

Structured settlement annuities

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

Bank- and corporate-owned life insurance

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

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

Life reinsurance

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

Competition

The US marketplace is highly competitive. Aegon USA's competitors include other large insurance carriers, in addition to

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

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

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

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

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

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

Regulation and supervision

Aegon USA

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

State Insurance Regulation

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

The Aegon USA insurance companies are licensed as insurers in Iowa and are also licensed and regulated in each US state and jurisdiction in which they conduct insurance business. The extent

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of such regulation varies, but has a shared purpose in terms of the protection of policy and contract holders. The insurance regulators in each state carry out their mission by providing oversight in the broad areas of market conduct and financial solvency regulation.

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

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

State regulators, by law, conduct extensive financial examinations every three to five years.

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

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

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

Federal Regulation of Financial Services and Health Insurance

Although the insurance business is primarily regulated at the state level, many federal laws and initiatives impact the insurance sector in such areas as the regulation of financial services, derivatives, retirement plans, securities products, health care, taxes and privacy. Regulation of financial services has increased as result of the Dodd Frank Act, which also created the Federal Insurance Office (FIO) and the Office of Financial Research (OFR). The FIO is

authorized to review the insurance market in the US and make recommendations to Congress, and the OFR conducts research in financial services, including insurance, in support of such oversight. In addition, the FIO is authorized to establish US insurance policy in international matters. Finally, the Federal Reserve Board also has authority to establish capital standards for systemically significant insurers and to participate in the establishment of international insurance capital standards. In the area of privacy, there has been increased scrutiny at a state, federal and international level following a number of high-profile data breaches of financial services and other companies. As a result, Congress and federal regulators are considering options to combat data breaches and cyber-threats, in addition to those already imposed by the Gramm-Leach-Bliley Act and other federal law and regulations.

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

Solvency II

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

Securities Regulation

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

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

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

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

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

connection with examinations and investigations of its own companies and third-party or unaffiliated insurers, broker-dealers, investment advisers, investment companies and service providers relating to certain historical and current practices with respect to these and other matters. Some of those inquiries have led to investigations, which remain open, or have resulted in fines, corrective actions or restitution. Aegon USA continues to cooperate with these regulatory agencies. In certain instances, Aegon USA modified business practices in response to those inquiries or findings. Certain Aegon USA companies have paid, or have been informed that the regulators may seek, restitution, fines or other monetary penalties or changes in the way that business is conducted. The impact of any such fines or other monetary penalties is not expected to have a material impact on Aegon USA's financial position, net income or cash flow.

[Regulation of Workforce Retirement Plans and IRAs](#)

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

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

Table of Contents**38 Business overview Results of operations Americas****Tax Treatment of Insurance Companies and their Products and Plans**

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

Asset liability management

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

The key investment strategy for traditional general account insurance is asset liability management (ALM), whereby predominately high-quality investment assets are matched in an optimal way to the corresponding insurance liability. This strategy takes into account currency, yield and maturity characteristics. Asset diversification and quality considerations are also taken into account, along with considerations of the policyholders

guaranteed or reasonably expected excess interest sharing. Investment-grade fixed income securities are the main vehicle for ALM, and Aegon USA's investment personnel are highly skilled and experienced in these investments.

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

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

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Reinsurance ceded

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

These reinsurance contracts are designed to diversify Aegon USA's overall risk and limit the maximum loss on risks that exceed policy retention levels. The maximum retention limits vary by product and class of risk up to USD 15 million.

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

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

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

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

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Amounts in EUR millions	2015	2014	%
Net underlying earnings	419	423	(1%)
Tax on underlying earnings	118	135	(13%)
Underlying earnings before tax by business			
Life & Savings	325	336	(3%)
Pensions	212	195	9%
Non-life	(21)	13	-
Distribution	22	15	50%
Underlying earnings before tax	537	558	(4%)
Fair value items	175	(766)	-
Gains / (losses) on investments	306	431	(29%)
Net impairments	(20)	(12)	(76%)
Other income / (charges)	(22)	(113)	81%
Income before tax	977	99	-
Income tax	(223)	(37)	-
Net income	753	62	-
Life insurance gross premiums	2,240	3,982	(44%)
Accident and health insurance premiums	234	233	0%
General insurance premiums	473	501	(5%)
Total gross premiums	2,947	4,716	(38%)
Investment income	2,277	2,568	(11%)
Fees and commission income	351	324	8%
Total revenues	5,575	7,608	(27%)
Commissions and expenses	1,053	977	8%
of which operating expenses	831	726	14%
New life sales			
Amounts in EUR millions	2015	2014	%
Life & Savings	32	33	(2%)
Pensions	98	218	(55%)
Total recurring plus 1/10 single	130	251	(48%)
Amounts in EUR million	2015	2014	%
New premium production accident and health insurance	9	9	1%

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New premium production general insurance	29	26	11%
Gross deposits (on and off balance)	2015	2014	%
Life & Savings	4,870	2,708	80%
Pensions	267	73	-
Total gross deposits	5,137	2,781	85%

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Results 2015 the Netherlands¹

Net income in 2015 increased to EUR 753 million compared with EUR 62 million in 2014, mainly driven by the positive impact of rising credit spreads on fair value items. Underlying earnings before tax declined, as 2014 included an employee pension-related reserve release of EUR 45 million. On a comparable basis, underlying earnings before tax increased by 5%, as lower funding costs, higher earnings from mortgages and a mortality provision release more than offset lower non-life results. Lower new life sales were driven by the absence of large pension buyouts given the low interest rate environment. Gross deposits almost doubled resulting from growth of Knab, Aegon's online bank and premium pension institutions (PPI), Aegon's defined contribution pension business.

Net income

Net income from Aegon's businesses in the Netherlands increased with EUR 691 million to EUR 753 million in 2015 compared with 2014. Realized gains on investments totalled EUR 306 million, and were mainly the result of portfolio rebalancing in the low rate environment. Results on fair value items amounted to a gain of EUR 175 million, driven by a positive impact of rising credit spreads and interest rates. Impairment charges amounted to EUR 20 million and were primarily related to the consumer loan portfolio. Other charges of EUR 22 million included a EUR 11 million charge for the restructuring of the non-life business.

Underlying earnings before tax

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

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

Commissions and expenses

Commissions and expenses increased in 2015 to EUR 1,053 million. Operating expenses were up to EUR 831 million in 2015 compared with 2014 due to a charge related to the non-life business, the release of the employee benefit

reserve booked in 2014, and the higher employee benefit expenses, which resulted from the low interest rate environment.

Production

Gross deposits almost doubled in 2015 to EUR 5.1 billion compared with 2014, mainly driven by the growth of Knab, Aegon's online bank in the Netherlands, and by the PPI business. Production of mortgages in 2015 increased by 24% to EUR 5.9 billion, of which EUR 3.7 billion was related to third-party investor demand (2014: EUR 2.1 billion).

New life sales amounted to EUR 130 million, which was a result of the absence of large pension buyouts. Individual life sales remained stable at EUR 32 million, while pension sales decreased to EUR 98 million.

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

1 Throughout this report, Aegon the Netherlands refers to all Aegon companies operating in the Netherlands.

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Amounts in EUR millions	2014	2013	%
Net underlying earnings	423	352	20%
Tax on underlying earnings	135	102	32%
Underlying earnings before tax by business			
Life & Savings	336	247	36%
Pensions	195	208	(6%)
Non-life	13	(20)	-
Distribution	15	18	(17%)
Underlying earnings before tax	558	454	23%
Fair value items	(766)	(41)	-
Gains / (losses) on investments	431	342	26%
Net impairments	(12)	(32)	64%
Other income / (charges)	(113)	(36)	-
Income before tax	99	687	(86%)
Income tax	(37)	(166)	78%
Net income	62	521	(88%)
Life insurance gross premiums	3,982	3,515	13%
Accident and health insurance premiums	233	243	(4%)
General insurance premiums	501	487	3%
Total gross premiums	4,716	4,245	11%
Investment income	2,568	2,310	11%
Fees and commission income	324	328	(1%)
Total revenues	7,608	6,883	11%
Commissions and expenses	977	990	(1%)
of which operating expenses	726	732	(1%)
New life sales			
Amounts in EUR millions	2014	2013	%
Life & Savings	33	40	(19%)
Pensions	218	166	32%
Total recurring plus 1/10 single	251	206	22%

Amounts in EUR million	2014	2013	%
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New premium production accident and health insurance	9	24	(61%)
New premium production general insurance	26	26	1%

Gross deposits (on and off balance)	2014	2013	%
Life & Savings	2,708	1,338	102%
Pensions	73	-	-
Total gross deposits	2,781	1,338	108%

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Results 2014 the Netherlands

2014 net income decreased to EUR 62 million compared with 2013 due mostly to higher losses from fair value items, partly offset by higher underlying earnings before tax and higher realized gains. Growth in underlying earnings was mostly driven by higher investment income and an employee pension-related reserve release. Higher new life sales were driven by increased pension production and higher gross deposits were driven by growth of online bank Knab.

Net income

Net income from Aegon's businesses in the Netherlands decreased to EUR 62 million in 2014 compared with 2013. Higher losses from fair value items and an increase in other charges in 2014 partly offset by higher underlying earnings before tax and realized gains compared with 2013. Realized gains on investments totaled EUR 431 million, and were mainly the result of the sale of a private equity investment and repositioning the fixed income portfolio in anticipation of Solvency II. Results on fair value items amounted to a loss of EUR 776 million, primarily related to model updates and hedging programs. In 2014, impairment charges declined by more than half, compared with 2013, to EUR 12 million as a result of lower mortgage arrears. Other charges of EUR 113 million were mostly due to a EUR 95 million provision for the Optas agreement.

Underlying earnings before tax

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

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

Commissions and expenses

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

Production

New life sales increased 22% in 2014 compared with 2013 to EUR 251 million. Individual life sales declined 18% in 2014 to EUR 33 million compared with 2013, as the ongoing shift to banksparen products more than offset higher term sales related to new mortgage production. Pensions sales increased 31% in 2014 to EUR 218 million compared with 2013, mainly the result of a single large new contract for Dutch mineworkers. Production of mortgages in 2014 amounted to EUR 4.8 billion (2013: EUR 3.2 billion), of which EUR 2.1 billion was related to third-party investor demand (2013: EUR 0.5 billion).

Premium production for accident & health amounted to EUR 9 million in 2014 down from EUR 24 million in 2013. General insurance production was flat in 2014 compared with 2013 at EUR 26 million. Production was negatively impacted by the continued focus on improving profitability.

Gross deposits more than doubled in 2014 to EUR 2.8 billion compared with 2013 driven by the growth of Knab, Aegon's online bank in the Netherlands.

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Overview of the Netherlands

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

Organizational structure

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

Aegon the Netherlands' primary subsidiaries are:

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

Stichting CAPPITAL Premiepensioeninstelling.
Aegon the Netherlands has four lines of business:

Life & Savings;

Pensions;

Non-life; and

Distribution.

Overview of sales and distribution channels

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

¹ Verzekerd van cijfers 2014, Verbond van Verzekeraars.

² AM Jaarcijfers

³ Metrixlab brandtrackers.

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

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

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

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

Overview of business lines

Life & Savings

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

Products

Endowment insurance

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

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

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

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

[Term and whole life insurance](#)

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

[Annuity insurance](#)

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

[Variable unit-linked products](#)

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

is ten years. Tontine plans are unit-linked contracts with a specific bonus structure. At the end of the year in which the insured dies, the policy balance is distributed to surviving policyholders that belong to the same tontine series, rather than to the policyholder's estate. A death benefit is paid to the dependents in the event that the policyholder dies

before the policy matures. Tontine policyholders may invest premiums in a number of Aegon funds. Aegon the Netherlands manages tontine plans, but no longer sells them.

Mortgage loans

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

Savings accounts

Aegon the Netherlands offers flexible savings accounts with cash withdrawal with limited restrictions, and deposit accounts with a pre-determined maturity.

Investment contracts

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

Long-term deposits (Banksparen)

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

Sales and distribution

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

Pensions

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

Products

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

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

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

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

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

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

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

¹ Verzekerd van cijfers 2014, Verbond van Verzekeraars.

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

Sales and distribution

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

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

Non-life

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

Products

General insurance

Aegon the Netherlands offers general insurance products in retail markets. These include house, inventory, car, fire and travel insurance. In the Netherlands, Aegon has completed a thorough business review and will restructure its non-life business to focus exclusively on the retail and SME segments of the market, which includes property & casualty and disability insurance. Aegon will exit the proxy channel entirely and is considering strategic options for its commercial lines business. These actions are expected to result in improved non-life returns in the future.

Accident and income protection insurance

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

Sales and distribution

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

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Distribution

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

Competition

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

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

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

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

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

¹ Verzekerd van Cijfers.

² Verzekerd van Cijfers.

³ Dutch Central Bank.

⁴ The Land Registry (Kadaster), 2015.

⁵ Dutch Central Bank.

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

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

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

Regulation and supervision

General

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

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

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

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

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

Financial supervision of insurance companies

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

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

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

- ❧ Aegon Levensverzekering N.V.;

- ❧ Aegon Schadeverzekering N.V.;

- ❧ Aegon Spaarkas N.V.; and

- ❧ Optas Pensioenen N.V.

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

Solvency I

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

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

With respect to the period up to December 31, 2015, every life and non-life insurance company licensed by DNB and falling under its prudential supervision must file audited regulatory reports on at least an annual basis. These reports, which are primarily designed to enable DNB to monitor the solvency of the insurance company, include a (consolidated) balance sheet, a (consolidated) income statement, extensive actuarial information, and detailed information on the insurance company's investments. DNB's regulatory reporting is based on a single entity focus, and is designed to highlight risk assessment and risk management.

Preparing for Solvency II

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

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

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

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Solvency II

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

Financial supervision of credit institutions

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

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

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

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

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

EU Directive 2014/59/EU (the Banking Recovery and Resolution Directive, BRRD) has been implemented in the Netherlands as of November 16, 2015, by means of an amendment of the Wft. The BRRD gives regulators powers to

write down debt (or to convert such debt into equity) of ailing banks, certain investment firms and their holding companies to strengthen their financial position and allow such institutions to continue as a going concern subject to appropriate restructuring. Pursuant to the BRRD, the banks are required at all times to meet a minimum amount of own funds and eligible liabilities (MREL) expressed as a percentage of the total liabilities and own funds. The resolution authority will set a level of minimum MREL on a bank-by-bank basis based on assessment criteria due to be set out in technical regulatory standards.

Other financial undertakings in the Netherlands

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

Asset liability management

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

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

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50 Business overview **Results of operations** **the Netherlands**

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

Reinsurance ceded

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

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

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

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

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Results 2015 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Net underlying earnings	112	108	3%	154	134	15%
Tax on underlying earnings	(21)	(16)	(33%)	(29)	(19)	(47%)
Underlying earnings before tax by business						
Life	58	77	(24%)	80	95	(16%)
Pensions	33	16	108%	46	20	132%
Underlying earnings before tax	91	92	(2%)	125	115	9%
Fair value items	(19)	(12)	(62%)	(27)	(15)	(80%)
Gains / (losses) on investments	69	132	(48%)	95	164	(42%)
Net impairments	-	-	-	-	-	-
Other income / (charges)	19	(40)	-	27	(49)	-
Income before tax	160	173	(8%)	220	215	3%
Income tax attributable to policyholder return	(12)	(34)	63%	(17)	(42)	59%
Income before tax on shareholders return	147	139	6%	203	172	18%
Income tax on shareholders return	11	5	135%	15	6	162%
Net income	158	143	10%	218	178	22%
Life insurance gross premiums	4,134	3,962	4%	5,697	4,916	16%
Total gross premiums	4,134	3,962	4%	5,697	4,916	16%
Investment income	1,688	1,671	1%	2,327	2,073	12%
Fees and commission income	31	34	(8%)	43	43	2%
Total revenues	5,854	5,668	3%	8,067	7,032	15%
Commissions and expenses	508	620	(18%)	700	769	(9%)
of which operating expenses	259	354	(27%)	357	439	(19%)

	Amounts in GBP millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
New life sales						
Life	52	53	(1%)	72	65	10%
Pensions	609	731	(17%)	840	907	(7%)
Total recurring plus 1/10 single	661	783	(16%)	911	972	(6%)

	Amounts in GBP millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Gross deposits (on and off balance)						
Savings	223	227	(2%)	307	281	9%
Total gross deposits	223	227	(2%)	307	281	9%

	Weighted average rate		Closing rate as of	
	2015	2014	December 31, 2015	December 31, 2014
Exchange rates				
Per 1 EUR				
GBP	0.7256	0.8061	0.7370	0.7760

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Results 2015 United Kingdom

Net income in 2015 increased by more than 10% to GBP 158 million compared with 2014, primarily due to lower business transformation costs and the non-recurrence of a provision for the implementation of the pension fee cap. Underlying earnings before tax decreased slightly compared with 2014. New life sales declined by 16% to GBP 661 million compared with 2014, driven by lower traditional pensions production. Platform assets more than doubled to GBP 6.4 billion by the end of 2015 compared with the end of 2014.

Net income

Net income from Aegon's businesses in the United Kingdom increased by more than 10% to GBP 158 million in 2015 compared with 2014, primarily due to lower business transformation costs and the non-recurrence of a provision for the implementation of the pension fee cap. Realized gains on investments totaled GBP 69 million, and were mainly the result of selective de-risking of the asset portfolio to improve Aegon's capital position in preparation for Solvency II. Results on fair value items amounted to a loss of GBP 19 million as a result of unrealized losses on equity hedges to protect the capital position. Other income of GBP 19 million was mostly due to charges for policyholders in respect of tax, with an equal offset in taxes attributable to policyholder return.

Underlying earnings before tax

Underlying earnings before tax in the United Kingdom decreased by 2% to GBP 91 million compared with 2014. Higher underlying earnings before tax in Pensions nearly offset lower underlying earnings before tax from the Life business.

- ⌚ Underlying earnings before tax from Life decreased by 24% to GBP 58 million compared with 2014. This was mostly due to lower investment income as a result of selective de-risking of the asset portfolio to improve Aegon's capital position in preparation of Solvency II.
- ⌚ Underlying earnings before tax from Pensions increased by 108% to GBP 33 million in 2015 compared with 2014. This was primarily driven by lower expenses, positive market movements and policy adjustments resulting from market movements and higher lapses.

Commissions and expenses

Commissions and expenses decreased by 18% in 2015 to GBP 508 million compared with 2014. Operating expenses decreased by 27% in 2015 to GBP 259 million compared with 2014, mainly due to lower business transformation costs and the non-recurrence of a provision for the implementation of the pension fee cap.

Production

New life sales decreased by 16% in 2015 to GBP 661 million compared with 2014. This was mostly the result of lower group pensions sales driven by lower demand for traditional pension products.

Platform assets reached GBP 6.4 billion by the end of 2015, which was more than double the total at the end of 2014. Gross deposits of GBP 223 million in 2015 were mainly driven by the addition of new customers as the platform

gained additional traction in the market.

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Results 2014 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Net underlying earnings	108	118	(8%)	134	139	(4%)
Tax on underlying earnings	(16)	(44)	(64%)	(19)	(52)	(63%)
Underlying earnings before tax by business						
Life	77	85	(9%)	95	100	(5%)
Pensions	16	(9)	-	20	(11)	-
Distribution	-	(2)	-	-	(2)	-
Underlying earnings before tax	92	74	24%	115	87	32%
Fair value items	(12)	(14)	(14%)	(15)	(16)	(6%)
Gains / (losses) on investments	132	41	-	164	48	-
Net impairments	-	(26)	-	-	(31)	-
Other income / (charges)	(40)	(38)	5%	(49)	(45)	9%
Income before tax	173	37	-	215	43	-
Income tax attributable to policyholder return	(34)	(27)	(26%)	(42)	(32)	(31%)
Income before tax on shareholders return	139	9	-	172	11	-
Income tax on shareholders return	5	56	(91%)	6	66	(91%)
Net income	143	65	120%	178	76	134%
Life insurance gross premiums	3,962	5,546	(29%)	4,916	6,537	(25%)
Total gross premiums	3,962	5,546	(29%)	4,916	6,537	(25%)
Investment income	1,671	1,743	(4%)	2,073	2,054	1%
Fees and commission income	34	68	(50%)	43	80	(46%)
Total revenues	5,668	7,356	(23%)	7,032	8,670	(19%)
Commissions and expenses	620	640	(3%)	769	754	2%
of which operating expenses	354	328	8%	439	387	13%

	Amounts in GBP millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
New life sales						
Life	53	58	(9%)	65	68	(4%)
Pensions	731	802	(9%)	907	946	(4%)
Total recurring plus 1/10 single	783	860	(9%)	972	1,014	(4%)

	Amounts in GBP millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Gross deposits (on and off balance)						
Variable annuities	-	3	-	-	3	-
Pensions	227	236	(4%)	281	278	1%
Total gross deposits	227	239	(5%)	281	281	0%

Exchange rates	Weighted average rate		Closing rate as of	
	2014	2013	December 31, 2014	December 31, 2013
Per 1 EUR				
GBP	0.8061	0.8484	0.7760	0.8320

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Net income in 2014 more than doubled to GBP 143 million compared with 2013, mostly due to higher underlying earnings before tax, higher realized gains and lower impairments. Growth in underlying earnings before tax compared with 2013 was mostly driven by improved persistency. New life sales declined by 9% to GBP 783 million compared with 2013, driven by lower traditional pensions production. Platform assets more than doubled to GBP 2.7 billion by the end of 2014 compared to the end of 2013.

Net income

Net income from Aegon's businesses in the United Kingdom more than doubled to GBP 143 million in 2014 compared with 2013, which was driven by higher underlying earnings before tax, realized gains and lower impairments. Realized gains on investments totaled GBP 132 million, and were mainly the result of selective de-risking of the asset portfolio in preparation for Solvency II. Results on fair value items amounted to a loss of GBP 12 million. Impairments charges were nil for the year. Other charges of GBP 40 million were mostly due to business transformation costs, and provision and expenses of GBP 26 million for the implementation of the upcoming pension fee cap.

Underlying earnings before tax

Underlying earnings before tax in the United Kingdom increased 24% to GBP 92 million compared with 2013. Higher underlying earnings before tax in Pensions more than offset lower underlying earnings before tax from the Life business.

- ⌚ Underlying earnings before tax from Life decreased 9% to GBP 77 million compared with 2013. This was mostly due to lower investment income as a result of selective de-risking of the asset portfolio backing annuities in preparation for Solvency II.
- ⌚ Underlying earnings before tax from Pensions increased to GBP 16 million in 2014 compared with a loss of GBP 9 million in 2013. This increase was mostly driven by improved persistency following the introduction of the Retail Distribution Review (RDR).

Commissions and expenses

Commissions and expenses decreased by 3% in 2014 to GBP 620 million compared with 2013. Operating expenses increased by 8% in 2014 to GBP 354 million compared with 2013, mainly the result of provision and expenses of GBP 26 million for the upcoming fee cap on pension business. Excluding this provision, operating expenses were flat compared with 2013.

Production

New life sales decreased 9% in 2014 to GBP 783 million compared with 2013, which was mostly the result of lower group pensions sales following the implementation of the RDR in 2013.

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Platform assets reached GBP 2.7 billion by the end of 2014, more than doubling compared with the end of 2013. Gross deposits of GBP 227 million in 2014 were mainly driven by the addition of new customers as the platform gained additional traction in the market.

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Overview of United Kingdom

In the United Kingdom, Aegon is a major provider of corporate and individual pensions, protection products, annuities, and savings products. Aegon UK has over two million customers, approximately 2,300 employees, and GBP 59 billion in revenue-generating investments. Aegon UK's main offices are in Edinburgh and London.

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

Organizational structure

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

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

Overview of sales and distribution channels

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

Retail channel – Aegon Retirement Choices (ARC)

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

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

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

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

[Workplace channel](#) [Workplace Aegon](#)

[Retirement Choices](#)

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

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

Direct to Customer channel

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

¹ Platform, UK Advisor Platform Guide, November 2015.

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

Overview of Business Lines

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

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

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

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

Products

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

Retirement solutions

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

- ↳ Individual Saving Accounts;
- ↳ Flexible personal pensions;
- ↳ Self-invested personal pensions;
- ↳ Platform-based corporate pension schemes;
- ↳ Transfers from other retirement plans;
- ↳ Phased retirement options and income drawdown;
- ↳ Secure retirement income (SRI), a new retirement solution that bridges the gap between annuities and income drawdown products. It offers customers a guaranteed income for life, in addition to continued control over their investments. This product is currently unique in offering a guaranteed pension product integrated into

- a digital proposition. The underlying guarantee is reinsured by Aegon Ireland PLC; and
- ⚡ A range of unit-linked guarantee investment products that provide valuable guarantees for the at-retirement market. These include an offshore investment plan, which provides a guaranteed income for life, and an offshore bond, which provides capital guarantees (offered by Aegon Ireland PLC).

Protection products

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

Packaged products

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

Competition

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

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

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

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

The shift from annuity products to drawdown products has created significant opportunities for Aegon UK because it has been a relatively small player in the UK annuity market, and much stronger in drawdown products. The recently launched Secure Retirement Income product is unique in the UK in providing a guaranteed retirement income product on a platform.

Regulation and supervision

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

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

A number of Aegon UK directors and senior managers have been approved by the FCA and/or the PRA to perform one or more controlled functions. A candidate is only approved by the regulator if the regulator is satisfied he or she is fit and proper to perform the controlled function(s) for which they have applied.

Financial supervision of insurance companies Solvency I

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

where it conducts business. The regulatory body that issued the license (the PRA in the UK) is responsible for monitoring the solvency of the insurer.

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

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

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

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

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

Solvency II

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

Asset liability management

Asset liability management (ALM) is overseen by Aegon UK's Management Investment Committee (MIC), which meets each month to monitor capital requirements and ensure appropriate matching of assets and liabilities.

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In addition to monitoring risk exposures in compliance with Aegon N.V.'s worldwide risk management strategies, investment exposure to any single counterparty is limited by an internal framework that reflects the limits set by the appropriate regulatory regime. This applies both within asset classes (equities, bonds and cash) and across all investments.

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

For non-profit business, considerable interest rate risk arises from Aegon UK's large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, with regular reporting to the MIC on the capital implications of any mismatching.

For unit-linked business, the matching philosophy is to closely match the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets are invested in funds managed by external investment managers. The MIC monitors the performance of the investment managers against fund benchmarks.

With-profit fund

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

Guarantees

With the exception of Aegon Secure Lifetime Income and 5 for Life (which are written by Aegon Ireland PLC) and the product guarantees within Secure Retirement Income, Investment Control and Income for Life (which are reinsured to Aegon Ireland PLC), all Aegon UK contracts with investment guarantees are written in policyholder-owned funds (otherwise called with-profit funds). These funds contain free assets that have not yet been fully distributed to individual policyholders. Free assets help meet the cost of guarantees and provide a buffer to protect the fund from the impact of adverse events. Aegon UK has an exposure only once these assets have been exhausted. As outlined below, Aegon UK believes this exposure to be low.

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

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

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

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Management of the with-profit fund

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

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

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

As mentioned above, the free assets (assets that, as yet, have not been distributed to policyholders) help meet the cost of guarantees and provide a buffer to deal with adverse events. These free assets are partly invested in equity puts and fixed interest swaps/swaptions to protect against adverse market movements. Aegon UK has an exposure only once these free

assets are exhausted. The risk of exposure has been assessed by Aegon UK as remote, based on applying the risk-based capital approach now required for Solvency II reporting in the UK.

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

Reinsurance ceded

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

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

business. Financial reinsurance has been used historically across the unitized business with the final repayments made in 2014.

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

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Amounts in EUR millions	2015	2014	%
Net underlying earnings	146	135	8%
Tax on underlying earnings	90	61	48%
Underlying earnings before tax by business / country			
Central & Eastern Europe	37	60	(39%)
Asia	20	(17)	-
Spain and Portugal ¹⁾	12	28	(56%)
Variable Annuities Europe	(3)	10	-
Aegon Asset Management	170	115	48%
Underlying earnings before tax	236	196	20%
Fair value items	8	(6)	-
Gains / (losses) on investments	20	16	23%
Net impairments	(2)	(43)	95%
Other income / (charges)	(47)	(24)	(96%)
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	215	139	54%
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	28	8	-
Income tax	(71)	(50)	(42%)
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(28)	(8)	-
Net income	144	89	61%
Life insurance gross premiums	2,565	2,015	27%
Accident and health insurance premiums	170	163	4%
General insurance premiums	244	224	9%
Total gross premiums	2,979	2,402	24%
Investment income	291	234	24%
Fees and commission income	813	623	31%
Other revenues	2	3	(22%)
Total revenues	4,086	3,262	25%
Commissions and expenses	1,188	984	21%

of which operating expenses

827	684	21%
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¹ Underlying earnings before tax in 2014 include EUR 19 million of Aegon's stake in La Mondiale Participations (France).

New life sales

Amounts in EUR millions

Central & Eastern Europe

Asia

Spain and Portugal

Total recurring plus 1/10 single

2015	2014	%
91	107	(15%)
173	114	52%
39	49	(20%)
304	271	12%

Amounts in EUR million

New premium production accident and health insurance

New premium production general insurance

2015	2014	%
47	34	38%
55	45	21%

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Gross deposits (on and off balance)

	2015	2014	%
Central & Eastern Europe	227	215	5%
Asia	408	526	(22%)
Spain and Portugal	29	55	(47%)
Variable Annuities Europe	375	383	(2%)
Aegon Asset Management	33,722	19,340	74%
Total gross deposits	34,761	20,519	69%

Exchange rates

	Weighted average rate	
	2015	2014
Per 1 EUR		
US dollar	1.1100	1.3288
Canadian dollar	1.4173	1.4667
Pound sterling	0.7256	0.8061
Czech koruna	27.2662	27.5153
Hungarian forint	309.3147	308.3758
Polish zloty	4.1819	4.1839
Romanian leu	4.4428	4.4429
Turkish Lira	3.0206	2.9060
Chinese Yuan Renminbi	6.9598	8.1902
Ukrainian Hryvnia	24.1414	15.8120

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Net income in 2015 increased to EUR 144 million compared with 2014 as a result of higher underlying earnings before tax and lower impairments. Higher underlying earnings before tax in 2015 compared with 2014 were mainly the result of improved results in Asia and growth of third-party asset balances in Asset Management. Gross deposits increased by 69% to EUR 35 billion as a result of record-high Asset Management inflows. New life sales of EUR 304 million were mainly related to sales of universal life products out of Hong Kong and Singapore.

Net income

Net income in 2015 increased 61% to EUR 144 million compared with 2014. Impairments decreased from EUR 43 million in 2014 to EUR 2 million in 2015, as a result of lower impairments on the Hungarian mortgage portfolio. Other charges amounted to EUR 47 million and mainly related to model updates in Asia.

Underlying earnings before tax

In New Markets, underlying earnings before tax increased by 20% in 2015 compared with 2014 to EUR 236 million, as higher earnings in Aegon Asset Management and Asia were only partly offset by the divestment of Aegon's stake in La Mondiale Participations and a decrease in earnings in Central & Eastern Europe (CEE) and Variable Annuities Europe.

- ⌚ Underlying earnings before tax from CEE decreased to EUR 37 million in 2015 compared with EUR 60 million in 2014. This decrease was primarily driven by the negative impact of higher surrenders in Poland following product changes and adverse claim experience due to storms in Hungary.
- ⌚ Underlying earnings before tax from Asia increased significantly to EUR 20 million, compared with EUR (17) million in 2014. This increase in underlying earnings before tax was the result of higher policy fees and the non-recurrence of a charge from model updates.
- ⌚ Underlying earnings before tax from Spain & Portugal decreased from EUR 28 million in 2014 to EUR 12 million in 2015. Underlying earnings before tax in 2014 include EUR 19 million of Aegon's stake in La Mondiale Participations (France) which was divested by Aegon in 2015. Excluding this divestment, earnings increased driven by growth of Aegon's joint ventures with Santander.
- ⌚ Underlying earnings before tax from Variable Annuities Europe decreased to EUR (3) million in 2015, mainly as a result of increased hedging expenses.
- ⌚ Underlying earnings before tax from Aegon Asset Management increased by 48% in 2015 to EUR 170 million compared with 2014. This increase was driven by higher performance and management fees. Performance fees of EUR 35 million were received in relation to mandates in China. Higher management fees resulted from growth of third-party asset balances.

Commissions and expenses

Commissions and expenses increased by 21% in 2015 compared with 2014 to EUR 1.2 billion. Operating expenses increased by 21% in 2015 compared with 2014 to EUR 827 million. The increase in operating expenses was mainly the result of currency movements, growth of the business and higher project-related expenses.

Production

Gross deposits in New Markets increased by 69% to EUR 35 billion. Aegon Asset Management's deposits grew to a record-high of EUR 34 billion. This increase was due to higher deposits in the Dutch Mortgage Fund, higher absolute return fund sales in the United Kingdom, increased flows in Chinese money market, equity and bond funds and the inclusion of Aegon's share in La Banque Postale Asset Management sales. Variable annuity deposits in Europe and Asia totaled EUR 375 million and EUR 408 million respectively.

New life sales increased by 12% in 2015 compared with 2014 to EUR 304 million.

- ⌚ In CEE, new life sales in 2015 declined by 15% to EUR 91 million. Sales growth in Turkey was more than offset by lower sales in Poland resulting from changes in the product offering.
- ⌚ In Asia, new life sales increased by 52% in 2015 compared with 2014 to EUR 173 million. This increase was mainly the result of higher sales of universal life products out of Hong Kong and Singapore, and favorable currency movements. In addition, sales in China increased as a result of the success of the whole life critical illness product.
- ⌚ New life sales in Spain & Portugal declined by 20% in 2015 compared with 2014 to EUR 39 million due to a lower sales contribution from bancassurance joint ventures in Spain.

New premium production from accident & health and general insurance business increased by 29% in 2015 compared with 2014 to EUR 102 million. This was mainly driven by strong health and general insurance sales in Spain, and higher general insurance sales in CEE.

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Results 2014 New Markets

Amounts in EUR millions	2014	2013	%
Net underlying earnings	135	153	(12%)
Tax on underlying earnings	61	74	(18%)
Underlying earnings before tax by business / country			
Central & Eastern Europe	60	57	5%
Asia	(17)	34	-
Spain and France	28	33	(15%)
Variable Annuities Europe	10	7	43%
Aegon Asset Management	115	95	21%
Underlying earnings before tax	196	227	(14%)
Fair value items	(6)	(21)	71%
Gains / (losses) on investments	16	-	-
Net impairments	(43)	(16)	(169%)
Other income / (charges)	(24)	(33)	27%
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	139	158	(12%)
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	8	5	60%
Income tax	(50)	(31)	(61%)
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(8)	(5)	(60%)
Net income	89	127	(30%)
Life insurance gross premiums	2,015	1,349	49%
Accident and health insurance premiums	163	170	(4%)
General insurance premiums	224	194	15%
Total gross premiums	2,402	1,713	40%
Investment income	234	233	-
Fees and commission income	623	583	7%
Other revenues	3	2	50%
Total revenues	3,262	2,531	29%
Commissions and expenses	984	999	(2%)
of which operating expenses	684	656	4%

New life sales

Amounts in EUR millions	2014	2013	%
Central & Eastern Europe	107	108	(1%)
Asia	114	67	70%
Spain and France	49	54	(9%)
Total recurring plus 1/10 single	271	228	19%

Amounts in EUR million	2014	2013	%
New premium production accident and health insurance	34	43	(21%)
New premium production general insurance	45	35	29%

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Gross deposits (on and off balance)	2014	2013	%
Central & Eastern Europe	215	248	(13%)
Asia	526	587	(10%)
Spain and France	55	9	-
Variable Annuities Europe	383	424	(10%)
Aegon Asset Management	19,34	13,018	49%
Total gross deposits	20,519	14,287	44%

Weighted average rate

Exchange rates

Per 1 EUR	2014	2013
US dollar	1.3288	1.3272
Canadian dollar	1.4667	1.3674
Pound sterling	0.8061	0.8484
Czech koruna	27.5153	25.9238
Hungarian forint	308.3758	296.3309
Polish zloty	4.1839	4.1940
Romanian leu	4.4429	4.4167
Turkish Lira	2.9060	2.5305
Chinese Yuan Renminbi	8.1902	8.1637
Ukrainian Hryvnia	15.8120	10.8249

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Results 2014 New Markets

Net income in 2014 decreased to EUR 89 million compared with 2013 as the increase in realized gains was more than offset by higher impairments. Lower underlying earnings before tax in 2014 compared with 2013 were mainly the result of a charge from model updates in Asia in 2014, which more than offset the increase in underlying earnings before tax in Aegon Asset Management in 2014.

Net income

Net income in 2014 declined by 30% to EUR 89 million compared with 2013. The increase in realized gains was more than offset by higher impairments both compared with 2013. New regulation on the Hungarian foreign currency mortgage portfolio was the main driver behind this increase in impairments. This new regulation focused on the determination of the adequate exchange rate to be used for the calculation of outstanding debt and interest payments.

Underlying earnings before tax

In New Markets, underlying earnings before tax decreased 14% in 2014 to EUR 196 million compared with 2013, as higher earnings in Aegon Asset Management, Variable Annuities Europe and Central & Eastern Europe were more than offset by a decrease in earnings in Asia and Spain & France.

- ↳ Underlying earnings before tax from Central & Eastern Europe increased to EUR 60 million in 2014 compared with EUR 57 million in 2013. This increase was primarily driven by higher underlying earnings before tax in Hungary, which more than offset the negative impact of higher surrenders in Poland following product changes
- ↳ Underlying earnings before tax from Asia decreased significantly to EUR (17) million, compared with EUR 34 million in 2013. This decrease in underlying earnings before tax was primarily the result of a charge from model updates in 2014 of EUR 26 million, primarily related to changes to modeled premium persistency, in the high net worth business. In addition, 2013 included a gain of EUR 22 million related to actuarial assumption changes and model refinements.
- ↳ Underlying earnings before tax from Spain & France decreased 15% in 2014 to EUR 28 million compared with 2013. Positive results from the joint venture with Banco Santander in Spain were more than offset by the impact of the divestment of partnerships and continuing investments in order to grow the business.
- ↳ Underlying earnings before tax from Variable Annuities Europe amounted to EUR 10 million in 2014, mainly resulting from growth of the business
- ↳ Underlying earnings before tax from Aegon Asset Management increased 21% in 2014 to EUR 115 million compared with 2013. This increase was driven by higher performance and management fees. Higher management fees resulted from growth of third-party asset balances.

Commissions and expenses

Commissions and expenses decreased by 2% in 2014 to EUR 984 million compared with 2013. Operating expenses increased by 4% in 2014 to EUR 684 million compared with 2013. The increase in operating expenses, despite favorable exchange rates in 2014 compared with 2013, was mainly the result of the joint venture with Banco

Santander in Spain, and higher marketing and sales expenses to support growth.

Production

New life sales in 2014 increased 19% to EUR 271 million compared with 2013.

- ⌚ In Central & Eastern Europe, new life sales in 2014 remained stable at EUR 107 million. This was mostly the result of higher sales in Turkey, Hungary and the Czech Republic, due to improved distribution productivity and growth of the tied-agent network, which were offset by adverse currency movements and lower sales in Poland.
- ⌚ In Asia, new life sales increased 70% in 2014 to EUR 114 million compared with 2013. This increase was mainly driven by increased sales of universal life products in Hong Kong and Singapore.
- ⌚ New life sales in Spain declined 9% in 2014 to EUR 49 million compared with 2013, as the sales contribution from the joint venture with Santander was offset by the loss of sales driven by the divestment of partnerships.

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New premium production from accident & health insurance business decreased 21% in 2014 to EUR 34 million compared with 2013, mainly a result of lower sales of the direct marketing activities in Asia. New premium production from Aegon's general insurance business was up 29% to EUR 45 million compared with 2013, driven by the successful sales campaigns of the joint venture with Banco Santander in Spain.

Gross deposits in New Markets increased 44% in 2014 compared with 2013 and amounted to EUR 21 billion. Gross deposits in Aegon Asset Management increased 49% in 2014 to EUR 19 billion compared with 2013, mainly driven by strong growth in retail sales in China and the United Kingdom. Gross deposits in Asia declined to EUR 526 million in 2014 compared with 2013 as a result of lower sales of variable annuities in Japan. Deposits in Central & Eastern Europe, Asia and Variable Annuities Europe decreased in 2014 compared with 2013, while the gross deposits in Spain & France were higher.

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Overview of Central & Eastern Europe

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

Organizational structure

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

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

Overview of sales and distribution channels

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

Overview of business lines**Life & Savings**

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

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

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

clients.

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

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

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

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

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

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

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

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

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

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

Mortgage loans

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

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

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

Pensions

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

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

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

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

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

Non-life

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

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

Competition

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

1 <http://asfromania.ro/informatii-publice/statistici/statistici-pensii/evolutie-indicatori>

2 <http://www.mabisz.hu/images/stories/docs-eng/publications/yearbook-2014-english.pdf>

3 <http://www.mabisz.hu/images/stories/docs-eng/publications/quarter/2015-i-iii-quarter.pdf>

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

5 <http://uainsur.com/stats/life/>

6 <http://www.tsb.org.tr/official-statistics.aspx?pageID=1003>

7 <http://www.adss.sk/en/Default.aspx?CatID=60&fundID=566>

8 <http://www.mnb.hu/felugyelet/idosorok/v-aranykonyv>

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

Regulation and supervision

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

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

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

The authorities mentioned above promote consumer protection and have the right to investigate prudential activities and conduct, financial position and solvency, and compliance with all relevant laws.

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

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

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

In Hungary, the foundation and operations of voluntary pension funds are regulated by the country's Voluntary Mutual Pension Funds Act (XCVI. 1993). Activity in this area is also supervised by the MNB. Slovakia's pension market is regulated by the Pension Asset Management Companies and Respective Notices Act (43/2004). The private pension business is under the supervision of the National Bank of Slovakia (NBS). In Romania, the private and voluntary

pension system is regulated and supervised by the Authority for Financial Supervision (ASF). The mandatory pension system is subject to the Privately Administered Pension Funds Act (411/2004) and the voluntary pension system is subject to the Voluntary Pension Law (204/2006), both complemented by individual regulations (as secondary legislation). In Poland, this activity is supervised by the KNF and governed by the Organization and Operation of Pension Funds Act. In Turkey, the voluntary pension funds are under the supervision of the Undersecretariat of Treasury and the companies are subject to Individual Retirement Saving and Investment System Law No. 4632.

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

Asset liability management

The investment strategy and the asset liability management of the CEE region is overseen within Aegon by the Regional Risk and Capital Committee, which meets on a quarterly basis. Aegon CEE's asset liability management focuses on asset liability duration and liquidity. The performance of the portfolios against benchmarks is also evaluated during the Committee's meetings.

Reinsurance ceded

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

1 <http://www.mnb.hu/felugyelet/idosorok/v-aranykonyv>

2 <http://www.adss.sk/en/Default.aspx?CatID=60&fundID=566>

3 https://www.knf.gov.pl/en/about_the_market/Pension_system/Financial_and_statistical_data/Monthly_data.html

4 <http://asfromania.ro/informatii-publice/statistici/statistici-pensii/evolutie-indicatori>

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

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

- ⌚ Property catastrophe excess of loss treaty (EUR 16 million retention);
- ⌚ Motor third-party liability excess of loss treaty (EUR 0.8 million retention);
- ⌚ Property per risk excess of loss treaty (EUR 1.0 million retention); and
- ⌚ General third-party liability excess of loss treaty (EUR 0.2 million).

The majority of treaties in force for Aegon's operations in Central & Eastern Europe are non-proportional excess of loss programs – except for the life reinsurance treaties, which are made on a surplus and quota-share basis (including various riders).

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Overview of Asia

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

Organizational structure

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

Joint ventures

On October 20, 2014, Aegon and Tsinghua Tongfang Co. Ltd (THTF) signed a joint venture agreement to replace CNOOC as Aegon's partner in Aegon's Chinese joint venture. The name of the joint venture was changed from Aegon CNOOC Life Insurance Co. Ltd. to Aegon THTF Life Insurance Co. Ltd. (Aegon THTF) on June 18, 2015. Aegon THTF is licensed to sell both life insurance and accident and health products in China. Aegon THTF has expanded its network of offices and business in China since 2003. Having obtained 12 provincial licenses, its geographic presence provides access to a potential market of over 640 million people, primarily in the coastal provinces of eastern China.

In 2006, Aegon entered into joint venture agreements with Religare Enterprises Limited and Bennett, Coleman & Co. Ltd. (BCCL) to establish Aegon Religare Life Insurance Co., Ltd. in India, which commenced operations in 2008. In December 2015, following regulatory approvals, Aegon and BCCL increased their ownership percentages in the joint venture to 49% and 48.4% respectively, and the joint venture was renamed Aegon Life Insurance Co., Ltd. (Aegon Life). By December 31, 2015, the joint venture had a distribution network across 52 cities and 20 states in India, and had issued more than 472,000 policies to over 412,000 customers.

In June 2007, Aegon signed a joint venture agreement with Sony Life, one of Japan's leading insurance companies, to establish Aegon Sony Life Insurance Co., Ltd. (Aegon Sony Life). Aegon Sony Life commenced operations in December 2009. By December 2015, Aegon Sony Life had entered into distribution partnerships with two mega banks and 22 regional banks, in addition to Sony Life's Life Planner distribution channel, which has over 4,000 professionals. The primary focus of Aegon Sony Life is annuity sales in Japan. Aegon and Sony Life

also jointly established a reinsurance company, SA Reinsurance Ltd. (SARe), to provide Aegon Sony Life with greater flexibility in the pricing and design of its annuity products. Launched in 2010 and based in Bermuda, SARe manages the guaranteed benefit risks of Aegon Sony Life's products.

Wholly-owned subsidiaries

In 2011, a new organizational structure was adopted for Aegon's operations in Asia, whereby all of Aegon's Asia-based insurance businesses are managed as one regional division headquartered in Hong Kong.

Transamerica Life Bermuda (TLB) and its predecessors recently celebrated 81 years of service to customers in Asia. TLB now primarily serves the high-net-worth market in Asia through its branches in Hong Kong and Singapore.

Aegon Direct and Affinity Marketing Services (ADAMS) is a direct marketing services group with four active operations and four run off operations in eight countries in the Asia-Pacific region. The first ADAMS company was established in Australia in 1998, and ADAMS subsequently launched operations in Korea, Japan, Taiwan, Hong Kong, Thailand, Indonesia and China. On March 1, 2015, ADAMS ceased new business operations in Hong Kong, while continuing to fulfill obligations to customers through its broker operation. On September 30, 2015, ADAMS Australia ceased writing new business, while continuing to support its existing business.

Overview of sales and distribution

In China and India, Aegon THTF and Aegon Life offer products through multiple distribution channels, from agents, independent brokers and banks, to direct marketing, group and e-sales.

Aegon Sony Life in Japan has two primary distribution channels: the Sony Life Planner channel (operated by Sony Life), and the bank distribution channel.

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

ADAMS is one of the largest independent insurance direct marketing services companies in Asia. ADAMS specializes in direct and affinity marketing, and services business partners across the direct marketing value chain.

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Aegon provides a broad range of life insurance products through its life insurance businesses in China and India. These include unit-linked, universal life, and traditional life products.

In China, Aegon THTF's agency and broker channels primarily sell whole- or life-critical illness products. Regular premium participating endowment and single-pay universal life are both key products for the bancassurance channel. Telemarketers largely sell return of premium products. The e-sales channel is currently focused on offering protection products.

Aegon Life offers a number of term plans, traditional individual participating products, traditional pension participating products and unit-linked plans.

Universal life and term products

TLB's main products consist of USD denominated universal life and USD term plans for the high-net-worth market.

Individual savings and retirement

Aegon Sony Life sells variable annuities. These products provide either a guaranteed lifetime withdrawal benefit (GLWB) or a guaranteed minimum accumulation benefit (GMAB).

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

Non-life

Aegon THTF offers non-life products (primarily consisting of short-term accident and short-term health products) through all channels. Non-life sales are, however, concentrated in the group channel, where the main products are group medical policies. Accident products are also one of the major types of products sold through the e-sales channel.

ADAMS is a marketing services company. It operates via partnerships primarily with local insurers to consult on the development and marketing of the most relevant insurance products to a given market's customers. Revenue is primarily generated through reinsurance arrangements with reinsurance or insurance companies from within the Aegon Group, together with fee income from product sales. Under this business model ADAMS develops, funds and executes direct marketing activities in exchange for reinsurance participation. ADAMS typically establishes brokerage or agency companies in order to be part of the selling process and to comply with existing regulations.

Competition

China: Aegon THTF

As of November 31, 2015, there were 75 life insurance companies in the market, including 47 domestic life companies and 28 foreign life insurers. Based on total premium income, Aegon THTF ranked forty-ninth among life insurance companies and fourteenth among foreign life companies in China. Aegon THTF's market share among foreign-invested companies was 1.4% in terms of total premium¹.

India: Aegon Life

There were 24 licensed life insurers in India at the end of December 2015. While the state-owned Life Insurance Corporation of India continues to maintain a dominant share of new business premiums (April 2015 to December 2015)², private sector companies have shown double-digit growth to garner more than 50% of the individual recurring new business premiums written. Aegon Life India ranked twenty-first in the individual recurring premium market (April 2015 to December 2015)³.

Japan: Aegon Sony Life

There are eight active companies in Japan's variable annuities market. In 2015, Aegon Sony Life ranked second in the market behind Dai-ichi Frontier.

Hong Kong and Singapore: TLB

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

Asia: ADAMS

The use of direct marketing in the insurance industry is growing due to economic pressure on traditional distribution channels and changes in customer behavior. For this reason, multinational insurers across the region are increasing their marketing capabilities.

Regulation and supervision

China: Aegon THTF

The insurance industry in China is regulated by the China Insurance Regulatory Commission (CIRC). In 2015, the CIRC released a series of regulations, including: Notice about Strengthen Product Management of Life Insurance Rate Reform Policies ; Notice about Promoting Participating Personal Premium Rate Policy Reform ; Interim Measures about Personal Tax Preferential Health Insurance Business ; Notice about Strengthening the Insurance Company's Prudential Asset Allocation ; and Guidelines about Insurance Funds Internal Control . These regulations demonstrate the commitment to reforming product pricing, in addition to loosening restrictions on investment strategy. The insurance industry in China began its

1 Source: the China Insurance Regulatory Commission (www.circ.gov.cn).

2 Source: Insurance Regulatory and Development Authority of India.

3 Source: Insurance Regulatory and Development Authority of India.

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transition towards the new solvency regime (C-ROSS) following the release of 17 regulations on C-ROSS by the CIRC in February 2015.

India: Aegon Life

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

The IRDAI is very active in introducing new regulations that focus on protecting policyholders' interests and exploring avenues to support growth in the industry. Some steps initiated by the IRDAI during 2015 include: the Insurance Amendment Act 2015; regulations on the transfer of equity shares; recognizing other forms of capital; draft regulations on the expense of management; guidelines on opening a place of business; guidelines on the unclaimed amounts of policyholders; and guidelines related to appointment of insurance agents. India's insurance laws were amended by the Indian Parliament in March 2015 to allow foreign investors to hold up to 49% equity in insurance companies in India. Following that change, Aegon increased its equity interest in Aegon Life to 49% in December 2015.

Japan: Aegon Sony Life

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

Following the 2014 revisions of the Insurance Business Act, in May 2015, the FSA published amendments to the Supervisory Guidelines for Small Amount and Short Term Insurance Providers that update the rules on insurance solicitors' obligations.

Hong Kong and Singapore: TLB

TLB is incorporated in Bermuda and regulated by the Bermuda Monetary Authority, the integrated regulator of the financial services sector in Bermuda. TLB's Asia branches are located in Hong Kong and Singapore. The insurance industry in Hong Kong is regulated by the Office of the Commissioner of Insurance. Changes to the Insurance Companies Ordinance in 2015 provide for the establishment of a new independent insurance authority. The amendments will take effect in stages, with the first being the establishment of the Provisional Insurance Authority.

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

Asia: ADAMS

There is an evolving regulatory environment for the use of personal data for marketing purposes, particularly in the market for direct distribution. ADAMS keeps abreast of all changes or proposed changes to regulations governing personal data in all of its markets. Where appropriate, ADAMS implements industry standard compliance programs, such as Payment Card Industry (PCI) Compliance in Australia and Privacy Mark in Japan.

Solvency II

Solvency II requirements became effective for Aegon Group as of January 1, 2016. Aegon's Asian activities are included in the Aegon Group Solvency II ratio through Deduction & Aggregation. For TLB and SA Re, Deduction & Aggregation is applied using available and required capital as per the local capital regime. The regulatory regime of Bermuda was granted provisional equivalence on December 7, 2015. The other units in Asia are included using the Solvency II standard formula basis. The combined Solvency II position of the activities of Aegon Asia on December 31, 2015, is estimated to be ~350%.

Asset liability management

China: Aegon THTF

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

India: Aegon Life

Aegon Life has a board-level Investment Committee (IC), a board-level Risk Management Committee (RMC), and a management-level Risk & Capital Committee (RCC). Regular reviews of risk and capital requirements are conducted by the RCC and RMC. Regular reviews are performed to ensure appropriate ALM for the business. An ALM report is tabled at the RCC meeting on a quarterly basis.

Japan: Aegon Sony Life and SARE

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

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

Hong Kong and Singapore: TLB

TLB's assets are currently managed by Aegon USA Investment Management in the United States. There is a management-level RCC and a management-level IC. Regular reviews of risk and capital matters are conducted by the RCC, while the IC focuses on the areas of investment performance and mismatch risk.

Asia: ADAMS

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

Reinsurance ceded**China: Aegon THTF**

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

India: Aegon Life

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

Japan: Aegon Sony Life and SARE

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

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

Hong Kong and Singapore: TLB

TLB uses third-party mortality reinsurance for its universal life and traditional policies. Mortality reinsurance takes the form of yearly-renewable term excess-of-retention or quota-share arrangements. This is typically arranged through a pool of reinsurers, such as Munich Re and Swiss Re.

Asia: ADAMS

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

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Overview of Spain & Portugal

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

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

Organizational structure

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

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

Overview of sales and distribution channels

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

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

Aegon Spain and Banco Santander

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

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

In July 2014, Aegon Spain and Banco Santander Totta Seguros, a Portuguese insurance company that is part of the Santander International group, signed an agreement to distribute a number of insurance products. This became fully operational in January 2015, following regulatory approval. The agreement concerns the distribution of pure life risk and general insurance products (accident, home and commercial multi-risk insurance, and sickness) through over 600 branches nationwide – the largest network of its kind in the country. These are sold through two insurance entities: Aegon Santander Portugal Vida for pure life risk products, and Aegon Santander Portugal Não Vida, for general insurance products. Aegon has a 51% share in each entity.

Aegon Spain and Liberbank

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

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

Distribution

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

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

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Overview of business lines

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

Life insurance & Pensions

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

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

General insurance

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

Health

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

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

Competition

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

For Aegon Spain's health and general insurance products, the main competitors are both foreign and local companies.

Mapfre leads the non-life insurance market with a 15% market share, followed by Grupo Mutua Madrileña with a 13% market share, and Allianz with a 7% market share. The non-life market is more fragmented than the life market. Aegon Spain's multi-risk business line is responsible for non-life and has a market share of less than 1%.

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

In the non-life bancassurance market, Ocidental Seguros is currently the market leader in terms of issued premiums, with a market share of 34%. It is followed by Fidelidade and CA Seguro (which sells through the Crédito Agrícola branch network) both of which have a market share of 14%³.

Regulation and supervision

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

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

Solvency I

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

Solvency II

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

1 Source: Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (ICEA).

2 Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (ICEA).

3 Associação Portuguesa de Seguradores (APS).

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Asset liability management

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

Reinsurance ceded

Aegon Spain has a single Aegon reinsurance management policy. This means that both its joint ventures and own business are treated as a whole, with the same economic conditions and reinsurers panel, but with individual profit shares without losses carried forward by each entity belonging to Aegon Spain. The main contract for mortality and morbidity provides proportional reinsurance protection for both its individual risk and group risk policies. With this approach, Aegon Spain seeks to optimize the

cost of reinsurance coverage, sharing the profits and not the losses, while achieving prudential diversification of its insurance risk by limiting the maximum possible losses on risks that exceed retention levels. Maximum retention levels vary by product and by the nature of the risk being reinsured, although the retention limit is in general between EUR 9,000 and EUR 60,000 per life insured. Aegon Spain remains contingently liable for the amount ceded should the reinsurance company fail to meet its obligations. Aegon Spain generally only uses reinsurance companies that have a Standard & Poor credit rating of A or higher. Aegon's Group Reinsurance Use Committee is involved in the pre-approval of reinsurers, and the selection of reinsurers where a reinsurer has a rating below A. In addition, to reduce its exposure to defaults, Aegon Spain has several reinsurers on its panel and regularly monitors the creditworthiness of each. Further protection is taken out through funds that are withheld for investment by the ceding company where appropriate.

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Overview of France

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

Background

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

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

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Overview of Variable Annuities Europe

Variable Annuities Europe is a specialist provider of variable annuity (guarantee) products in the United Kingdom, Germany and France. It also offers offshore investment bonds in the United Kingdom.

Organizational structure

The legal entity of Variable Annuities Europe is Aegon Ireland PLC (Aegon Ireland). Its main office is located in Dublin, Ireland, with a branch office in Frankfurt, Germany. It operates two business lines: variable annuities (guarantees) and offshore investment bonds.

Overview of sales and distribution channels

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

Variable annuities (guarantees)

Variable annuities are advised products distributed primarily through financial advisors and banks in three European markets: the UK, Germany and France.

In the UK, Aegon Ireland variable annuities (often referred to as unit-linked guarantees) are sold exclusively via Aegon UK's retail advisor channel, and are distributed through the Aegon Retirement Choices (ARC) and One Retirement propositions, banks, and financial advisors. In July 2015, Aegon UK launched a new guaranteed pension product (Secure Retirement Income), of which the guaranteed lifetime income option is reinsured to Aegon Ireland.

In Germany, Aegon Ireland offers variable annuities and employs a direct sales and customer service team in its Frankfurt branch office. The key distribution channel is financial advisors.

In France, AG2R La Mondiale offers a variable annuity product, of which the guaranteed lifetime income option is reinsured to Aegon Ireland.

Offshore investment bonds

Aegon Ireland offshore investment bonds are offered exclusively in the UK, and are distributed through the ARC proposition, other third-party propositions, banks and financial advisors. Offshore investment bonds are traditionally marketed to high-net-worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options.

Overview of business lines

Variable annuities (guarantees)

Variable annuity products are essentially unit-linked life and pension insurance products with guarantees. They typically offer

a range of investment fund options linked to equities and fixed-interest investments. Some options enable the policyholder to select assets in fixed proportions. Increasingly, however, investment fund options aim to control fund volatility around certain target levels. In each case, an appropriate guarantee charge is set according to fund risk or fixed equity content. The guarantees offered may take several different forms: a minimum level of future lifetime income (immediate or deferred), an income for a defined term, or a minimum return of capital at the end of a defined period. Optional or integrated minimum death benefits are also usually offered. Charges for the guarantees are applied to the policyholder's account value, and vary according to the guarantee and the fund choice.

These products allow a customer to participate in equity and bond market performance with the assurance of a minimum level of future benefit, regardless of the performance of their account. The various forms of guarantee enable customers to select the minimum benefit options that best suit their own capital or income needs.

Policyholder contributions are invested in the chosen underlying fund(s). For the majority of products, the client selects investment options based on their preferred level of risk. The assets related to this product are segregated for the benefit of policyholders in separate accounts of the insurance company.

The policyholder's account value reflects the performance of the selected funds less charges, withdrawals or guarantee payments. The insurance provider earns administration and expense charges, in addition to guarantee charges for the guaranteed benefits.

Offshore investment bonds

Offshore investment bond products are open-ended unit-linked life insurance products. They offer a wide variety of investment choices, making it possible to invest in a broad range of external assets, such as collective investment schemes, unit trusts, and open-ended investment companies (OEICs), together with internal unit-linked funds managed by Aegon Ireland, and cash deposits.

The premiums paid are invested in the underlying funds as selected by customers. Alternatively, customers may request the appointment of a specialist fund manager to select the underlying funds on an advisory or discretionary basis.

The assets related to this product are segregated for the benefit of policyholders in separate accounts of the insurance company.

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These separate accounts are classified as investments for the account of policyholders.

Offshore bond products enable customers to make regular withdrawals from their policy, provided there is sufficient value in the underlying fund. The death benefit is typically 100.1% of the surrender value of the policy on the death of the last life assured. Offshore bond products do not have explicit guarantees. The surrender value reflects the performance of the funds selected by the client. The final surrender value of the policy may therefore be less than that of the original investment.

The account value of offshore bond products reflects the performance of the funds. The insurance provider earns ongoing administration and expense charges on the policy. Collected surrender charges are typically applied to recoup deferred acquisition costs.

Competition**Variable annuities (guarantees)**

There was no material change in the competitive environment for variable annuities in Europe in 2015 as challenging economic and financial conditions limited new product launches.

In the UK, Variable Annuities Europe has two direct competitors: Axa and MetLife. Following the introduction of pension reforms in the UK in April 2015, the market for retirement income products is expected to grow especially for those products offering income guarantees. New retirement income products are expected to come to market in 2016. While this is a challenge for Variable Annuities Europe, it is also an opportunity to grow the market for retirement income products. Due to the new pension reforms, Aegon launched Secure Retirement Income, a variable annuity pension product offering guaranteed lifetime income.

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

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

Offshore investment bonds

In recent years, the UK offshore investment bond market has been increasingly concentrated among the largest companies and is highly competitive.

Regulation and supervision

Aegon Ireland is registered as a life insurance company in Ireland under the European Communities (Life Assurance) Framework Regulations 1994 (the 1994 Regulations), which implement the Consolidated Life Directive in Ireland. Aegon Ireland is regulated

by the Central Bank of Ireland. As an Irish-authorized life insurance company, Aegon Ireland may undertake life insurance business in any member state of the European Economic Area on either a freedom of services (FOS) or freedom of establishment (FOE) basis, subject to the notification requirements set out in the 1994 Regulations.

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

The Central Bank of Ireland has sole responsibility for the prudential supervision and regulation of Aegon Ireland. For this reason, Aegon Ireland's entire business, state of solvency, establishment and maintenance of technical reserves, quality of corporate governance, risk management, and internal control systems are all subject to monitoring and supervision by the Central Bank of Ireland. Aegon Ireland is required to submit annual returns to the Central Bank of Ireland, and is subject to annual review meetings and themed visits. The Central Bank of Ireland has wide powers of intervention in all areas of Aegon Ireland's business.

Solvency II

As of January 1, 2016, when Solvency II became effective, Aegon Ireland has been using the Standard Formula to calculate the solvency position of its insurance activities. The combined Solvency II position of the activities of Variable Annuities Europe on December 31, 2015, is estimated to be ~125%.

Asset liability management

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

Reinsurance ceded

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

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Overview of Aegon Asset Management

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

Organizational structure

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

- ❧ **Aegon Asset Management** specializes in providing clients with a range of high-quality investment solutions across asset classes, including fixed income, equities, real estate, absolute return, liability-driven, and multi-asset and balance sheet solutions. Its focus lies on illiquid investment products. A long and successful history of partnership with Aegon's insurance businesses has enabled Aegon Asset Management to establish experienced investment teams, a solid asset base and proven long-term records;
- ❧ **Kames Capital** is a UK-based asset management company that provides fixed income, equities, real estate and multi-asset solutions to both UK and international clients; and
- ❧ **TKP Investments** is a Netherlands-based fiduciary manager that is recognized for its manager selection and tailored advice on balance sheet solutions for the pension market.

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

- ❧ In China, Aegon Asset Management owns 49% of Aegon Industrial Fund Management Company, a Shanghai-based asset manager that offers mutual funds, segregated accounts and advisory services; and
- ❧ On June 4, 2015, Aegon Asset Management entered into a strategic partnership for the French market through the acquisition of a 25% stake in La Banque Postale Asset Management. This strategic partnership supports Aegon's ambition to grow and diversify its customer base through associated distribution arrangements. La Banque Postale Asset Management offers a comprehensive range of investment strategies to French institutional clients, and to private investors through La Banque Postale group's retail banking network.

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

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

Overview of business lines

Aegon Asset Management has three distinct client segments.

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

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

For third-party business, Aegon Asset Management distributes its investment strategies directly to its clients. The wholesale businesses typically sell collective investment vehicles (mutual funds) to customers through wholesale distributors and independent intermediaries. The main asset classes are fixed income and equities, and the funds are usually managed against a benchmark or peer group target. The institutional businesses typically sell tailored services to large corporations or pension funds. Aegon Asset Management employs a full range of asset classes, and manages the funds against objectives, targets and risk profiles agreed with clients. Aegon Asset Management offers both absolute and relative return products.

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Aegon Asset Management competes with other asset management companies to acquire business from open-architecture Aegon insurance units and third parties. Its competitors include global asset managers (both from financial conglomerates and stand-alone) and local specialists in the countries in which it operates. In general, competition varies according to the type of asset class and style of management.

In the United States, Aegon Asset Management focuses on fixed income, asset allocation and real estate loans. In the wholesale market, Aegon Asset Management works as a sub-advisor with its insurance company affiliates in order to produce competitive products. It also works with consultants and other partners to offer products to third-party institutions.

In the Netherlands, Aegon Asset Management provides a wide range of investment solutions to retail and institutional clients through its affiliate insurance company. In the third-party institutional market, it competes with both fiduciary and balance sheet managers, together with global asset managers with an asset-only proposition. Competition continues to be strong in the pension fund industry due to both the ongoing consolidation of pension funds and the growing service requirements of pension fund clients.

In the United Kingdom, competition in the third-party wholesale market has been heavily influenced by the effect that new regulatory changes stemming from the Retail Distribution Review (RDR) have had on distribution.

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

In France, La Banque Postale Asset Management competes for private investors through La Banque Postale's retail banking network, with a focus on new multi-asset strategies. In the institutional market, it will expand its current offering with additional strategies from Aegon Asset Management businesses to compete with the big local asset managers and specialized international players.

Regulation and supervision

Regulation of asset management companies in general differs to that of insurers. Aegon Asset Management's global holding company, Aegon Asset Management Holding B.V., is regulated by De Nederlandse Bank (The Dutch Central Bank (DNB)) as a financial holding company according to the Dutch Financial Supervision Act. Local operating entities are regulated by their local regulators, most notably the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten (AFM), conduct of business supervision) and DNB (prudential supervision) for Dutch-based entities, the Financial Conduct Authority (FCA) for UK-based entities and the Securities & Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) for the US-based entity. From a regulatory perspective, the asset management activities of Aegon Asset Management in the United States do not fall under the responsibility of Aegon Asset Management Holding B.V. as these entities are subsidiaries of Transamerica Corporation.

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

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Risk management**General**

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

Definition and tolerances

For Aegon, risk management involves:

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

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

Objectives of risk management

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

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

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

other stakeholders; and

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

Aegon's risk governance framework

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

- ⌚ Minimize ambiguity by clearly defining roles and responsibilities and risk reporting procedures for decision makers;
- ⌚ Institute a proper system of checks and balances, and ensure that senior management is aware of material risk exposure at all times;
- ⌚ Manage risk in line with the targeted risk profile, including the avoidance of an over-concentration of risk in particular areas;
- ⌚ Facilitate diversification by enabling management to identify diversification benefits from apparent risk-return trade-offs; and
- ⌚ Reassure external stakeholders that Aegon has appropriate risk management structures and controls in place.

Governance structure

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

- ⌚ The Supervisory Board and the Supervisory Board Risk Committee (SBRC);
- ⌚ The Executive Board and the Management Board;
- ⌚ The Enterprise Risk Management Committee and the Group Risk & Capital Committee (GRCC); and
- ⌚ The Regional Risk & Capital Committees.

The SBRC is responsible for overseeing Aegon's Enterprise Risk Management (ERM) framework, including risk governance and measures taken to ensure risk management is properly integrated into the Company's broader strategy. The SBRC oversees the Company's risk exposure as it relates to capital, earnings and compliance with Group Risk policies. It is the responsibility of the Executive Board and the Group's Chief Risk Officer (CRO) to inform the Supervisory Board of any risk that directly threatens the solvency, liquidity or operations of the Company. Details of members of the SBRC can be found on pages 98, 103 and 104 of this Annual Report.

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

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

The Management Board is supported by two committees:

- The Enterprise Risk Management Committee (ERMC), which focuses on Aegon's ERM framework development and maintenance, including risk strategy, risk governance, risk tolerance, risk methodology, risk policies and risk management standards of practice; and
- The Group Risk & Capital Committee (GRCC), which focuses on managing Aegon's overall solvency and liquidity position, while ensuring that risk-taking is within the risk tolerance statements and consistent with the group risk policies.

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

The GRCC informs the Management Board about any identified or near breaches of overall tolerance levels, in addition to any potential threats to the Company's solvency, liquidity or operations.

Risk & Capital Committees (RCCs) have been established at each of Aegon's reporting units. The responsibilities and prerogatives of the RCCs are set out in their respective charters and are similar in content to those of Group Risk, but tailored to local circumstances. Group Risk is responsible for the development, maintenance and oversight of compliance with the ERM framework, including risk strategy, risk governance, risk tolerance, risk methodology and risk policies. Group Risk also maintains oversight of material risk, balance sheet and commercial decisions taken throughout the Company. Group Risk further identifies good risk management practices and facilitates implementation of these, in addition to ensuring that there is consistency in the application of these practices across the Company. Furthermore, Group Risk prepares risk management information, including information about current risk exposures

and issues, and additional sensitivity and scenario analyses, both at its own initiative and at the request of management.

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

During 2015, Aegon also commenced a reorganization of its compliance and operational risk functions in order to improve their focus and influence. This reorganization included splitting the function at Group into a first line Regulatory Compliance function and a second line Operational and Conduct Risk Management (OCRM) function, in addition to strengthening reporting lines from the relevant business unit heads to the new Global Heads of Regulatory Compliance and OCRM.

Within the context of the ERM framework, the following reporting units are distinguished: the Americas, the Netherlands, the UK, Central & Eastern Europe, Asia, Spain, Variable Annuities Europe, Aegon Asset Management, and the Holding.

Lines of defense

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

The Company's first line of defense, including the business and support functions, such as Regulatory Compliance, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerance and risk policies. The second line of defense – the Risk Management department including the operational risk and conduct management function – facilitates and oversees the effectiveness and integrity of ERM across the Company. The third line of defense – the audit function – provides independent assurance and challenge regarding the effectiveness and integrity of ERM across the Company.

Scenario analysis

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

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Risk management in 2015:**Preparation for Solvency II**

Under Solvency II, capital requirements can be calculated: (i) on the basis of an internal model, developed by the insurance company itself, which requires the approval of the supervisor; (ii) on the basis of a standard formula, in accordance with Solvency II rules and guidelines; or (iii) a combination of an internal model and the standard formula, a partial internal model. An important development in 2015 was that Aegon both applied for and received approval to use a partial internal model as of January 1, 2016, to measure and aggregate most material risks related to its EU exposures and calculate its Solvency Capital Required (SCR) under Solvency II. A standard formula is used for certain less material risks in the Netherlands and the UK, and all risks in other business units.

Aegon's existing economic model for managing risk (its Economic Framework) and its ERM Framework formed a strong basis on which to develop its partial internal model. The various components of the internal model were extensively debated with the relevant supervisors, went through internal governance and were fully validated and vetted before approval was obtained. Furthermore, the ERM Framework, risk tolerances, risk policies and standards and practices have all been made Solvency II compliant. Given the magnitude of the Solvency II process, a specific program management structure supported the regular risk governance bodies.

The preparation for Solvency II concerned the quantitative, methodological, Pillar 1 component of Solvency II (technical provisions, valuation of assets and liabilities, solvency requirements, own fund requirements), the full embedment in risk management governance (Pillar 2) and in reporting (Pillar 3). It is important to not only meet technical implementation requirements, but to also use Solvency II in the taking of management decisions. While the full application of the Solvency II regulation in Aegon's capital framework was not possible until after the legislation came into force, Aegon started applying Solvency II numbers as much as possible before the implementation date. Examples in 2015 include Risk and Capital reporting, the budget and Medium Term Plans, target setting of staff, product pricing and development, asset & liability management, and merger, acquisition and disinvestment decisions.

Risk overview 2015

Aegon faces a number of risks, some of which may arise from internal factors, such as inadequate compliance systems. Others, such as movements in interest rates or unexpected changes in longevity or mortality trends, are external in nature. The most significant risk Aegon faces is that of changes in financial

markets, particularly movements in interest rates, equity and credit markets. These risks, whether internal or external, may affect the Company's operations, earnings, share price, value of its investments, or the sale of certain products and services. A description of risks relating to Aegon's businesses and risks relating to Aegon's common shares can be found on pages 320-339 of this Annual Report.

Credit risk

In 2015, credit spreads increased moderately, and Aegon slightly reduced its exposure to credit risk. In the UK, callable bonds were sold and the proceeds and new business were invested largely in high-rated sovereign-linked paper. In the Netherlands, corporate bonds were sold and reinvested in highly-rated structured assets. In the general account investment portfolio, Aegon retained minimum exposure to peripheral European countries.

Equity market risk and other investment risks

Equity markets were volatile in 2015, with a sharp correction in the third quarter followed by a partial recovery in the fourth. During the year, Aegon continued to progress its program of hedging equity risk at its UK pension business, variable annuities, and US and Dutch operations in order to protect the Company against a possible deterioration in equity markets. The US business has a macro hedge in place to protect the business capital position of variable annuities from fluctuations in equity markets. As a result of a mismatch between US statutory and IFRS accounting, this hedge showed a negative impact on income before tax of EUR 372 million in 2015 (2014: EUR 251 million). The Dutch operations further extended hedging of equity volatility risk in the existing equity hedge program.

Interest rate risk

In 2015, 30-year swap rates in the US and UK decreased by 8 bps and 13 bps to 2.72% and 2.17% respectively, compared with an increase in the 30-year swap rate in the eurozone by 15 bps to 1.67%. In the US, additional interest rate hedges were put in place in the first half of 2015 by implementing forward-starting swaps. The existing interest rate programs also remained in place in 2015 for hedging guarantees for Aegon's operations in the Netherlands, its long-term care business in the US, and for its variable annuities businesses in the US, Ireland and Asia.

Currency exchange rate risk

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

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[Liquidity risk](#)

Aegon has put a strong liquidity management strategy in place. The Company considers extreme liquidity stress scenarios, including the possibility of prolonged frozen capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date. In addition, the Company has liquidity stress planning in place. In 2015, Aegon retained significant holdings of cash and highly liquid assets as a precaution against potential adverse market developments. Stress tests show that available liquidity would more than match the Company's liquidity requirements even if market conditions were to significantly deteriorate.

[Underwriting risk](#)

Aegon's earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used to price products and establish technical liabilities. Changes in, among other things, morbidity, mortality, longevity trends and

policyholder behavior may have a considerable impact on the Company's income. Assumptions used to price products and establish technical liabilities are reviewed on a regular basis. In 2015, Aegon made several significant changes to assumptions and updates to models. Please refer to note 3 Critical accounting estimates and judgment in applying accounting policies for further information.

[Operational risk](#)

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

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Capital and liquidity management**Liquidity and capital resources**

In line with its risk tolerance, the goal of Aegon's capital and liquidity management is to promote strong and stable capital adequacy levels for its businesses on various capital metrics, and to maintain adequate liquidity to ensure that the Company is able to meet its obligations.

Risk tolerance is an important element of Aegon's Enterprise Risk Management Framework, and focuses on financial strength, continuity, the steering of the risk balance and the desired risk culture. The core aim is to establish the organization's tolerance for risk to assist management in carrying out Aegon's strategy within the Group's available resources.

Guiding principles

Aegon follows a number of guiding principles that determine its approach to capital and liquidity management:

- ⌚ To promote strong capital adequacy in Aegon's businesses and operating units;
- ⌚ To manage and allocate capital efficiently in support of the strategy and in line with its risk tolerance;
- ⌚ To maintain an efficient capital structure with an emphasis on optimizing Aegon's cost of capital;
- ⌚ To ensure sufficient liquidity by enforcing stringent liquidity risk policies for both business units and the holding; and
- ⌚ To maintain continued access to international capital markets on competitive terms.

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

Governance

Aegon's Corporate Treasury department manages and coordinates capital and liquidity management strategies and processes. As such, the department is responsible for managing the capitalization of the Aegon Group and the holding company in line with Aegon's Capital Management Policy. The capitalization levels are discussed and approved by Aegon's Management Board.

Capital management**Strategic importance**

Aegon's approach to capital management plays an important role in supporting the execution of Aegon's strategic priorities. These priorities include the shift of capital to products that offer higher growth and return prospects, and the shift from spread business to fee business. Disciplined risk and capital management support Aegon's aim to pay a sustainable dividend to its shareholders.

Improving risk-return profile

Aegon continues to take measures to improve its risk-return profile. These measures include, for instance, the continued run-off of Aegon's spread-based institutional business in the

United States, the sale of Aegon's Canadian life insurance business, the strategic growth in fee-based earnings, and extensive asset-liability management and hedging programs. Examples of these programs include hedging the interest rate and equity risk from guarantees in the Netherlands, and hedging the capital position in the Americas against adverse equity and interest rate movements. In addition, Aegon is actively involved in hedging longevity risk. Furthermore, Aegon continuously monitors the risk-return profile of new business written and withdraws products that do not meet the required hurdle rates.

Capital requirements and leverage

Aegon's goal for all business units is to maintain a strong financial position in order to be able to withstand losses from adverse business and market conditions. The Company's overall capital management strategy is based on managing capital adequacy, capital quality and the use of leverage.

Capital adequacy and quality

Capital adequacy and quality are managed within the organization at a Company, country and business unit, and legal entity level. As a matter of policy, Aegon maintains the capitalization of its business units based on the most stringent of the following constraints:

- Local regulatory requirements;
- Rating agency requirements for very strong capitalization for rated entities; and
- Any additional, self-imposed internal requirements.

Aegon's Insurance Groups Directive ratio was 220% on December 31, 2015 compared with 208% at the end of 2014. The increase reflects earnings generated during the year as well as the impact of divestments.

Solvency II

The introduction of Solvency II has meant a change in the regulatory capital requirements in EU-domiciled legal entities and therefore impacted the capitalization levels used to assess capital adequacy of Aegon's EU-domiciled business units. As Solvency II became effective on January 1, 2016, Aegon prepared for the implementation throughout 2015. Aegon uses a combination of the two aggregation methods defined within the Solvency II framework to calculate the Group Solvency ratio:

- Accounting Consolidation-based method; and
- Deduction and Aggregation method.

Aegon applies the Accounting Consolidation-based method as the default method. However, for insurance entities domiciled outside the EEA for which provisional or full equivalence applies, such as the United States, Aegon uses the Deduction and Aggregation method, with local regulatory requirements to bring these into the Group Solvency position. The local regulatory requirements of the US life insurance companies are calculated using 250% of the Company Action Level (CAL).

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The Group Solvency II position on December 31, 2015, which excludes Aegon Bank N.V., is estimated to be ~160%. There are however still uncertainties around the interpretation of the Solvency II requirements, notably the uncertainty on the loss absorbency of taxes.

G-SII designation

On November 3, 2015, Aegon was designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). The FSB reviews the G-SII designation annually. As a result of the G-SII designation, Aegon will be subject to an additional layer of direct supervision at group level. G-SIIs will be required (as of January 2019) to hold an additional capital buffer (Higher Loss Absorbing Capacity or HLA) in addition to the capital buffer (Basic Capital Requirements or BCR) internationally active insurance groups will be required to hold pursuant to IAIS guidelines. Furthermore, within 12 months of a G-SII designation, G-SIIs will be required to develop a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan. Relevant supervisory authorities will be required to: establish a crisis management group (within 6 months after G-SII designation); develop a resolution plan based on a resolution strategy and enter into a cross-border cooperation agreement (within 18 months); and conduct a resolvability assessment (within 24 months). The precise consequences of the G-SII designation are not yet fully clear, as relevant parts of the IAIS guidelines still need to be determined (and where appropriate, subsequently included in formal regulation).

Leverage metrics

In line with the guiding principles of its capital and liquidity management, Aegon N.V. monitors and manages several leverage metrics:

- ↳ Gross financial leverage ratio;
- ↳ Fixed charge coverage; and
- ↳ Various rating agency leverage metrics.

Aegon's gross financial leverage ratio is calculated by dividing total financial leverage by total capitalization. Aegon defines total financial leverage as debt or debt-like funding issued for general corporate purposes and for capitalizing Aegon's business units. Total financial leverage includes hybrid instruments, and subordinated and senior debt. Aegon's total capitalization consists of the following components:

- ↳ Shareholders' equity, excluding revaluation reserves and the remeasurement of defined benefit plans, based on IFRS as adopted by the EU;
- ↳ Non-controlling interests and share options not yet exercised; and
- ↳ Total financial leverage.

Aegon's fixed charge coverage is a measure of the Company's ability to service its financial leverage. It is the ratio of underlying earnings before tax and prior to the payment of interest expenses on financial leverage to interest payments on financial leverage. The fixed charge coverage includes the impact of interest rate hedging.

On December 31, 2015, Aegon's total capitalization was EUR 26.1 billion (EUR 24.8 billion on December 31, 2014), its gross financial leverage ratio was 27.0% (28.7% on December 31, 2014) and its fixed charge coverage was 6.7x

(6.5x on December 31, 2014). Aegon targets a gross financial leverage ratio of 26-30% and a fixed charge coverage of 6-8x.

Ratings

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

Agency	Aegon			
December 31, 2015	Aegon N.V.	Aegon USA	the Netherlands	Aegon UK
Standard & Poor's	A-	AA-	AA-	A+
Moody's Investors Service	A3	A1	-	-
Fitch Ratings	A	AA-	-	AA-

Funding and back-up facilities

Most of Aegon's financial leverage is issued by Aegon N.V., the parent company. A limited number of other Aegon companies have also issued debt securities, but for the most part these securities are guaranteed by Aegon N.V.

Aegon N.V. has regular access to international capital markets under a USD 6 billion debt issuance program. Access to the capital market in the United States is made possible by a separate shelf registration.

Aegon also has access to domestic and international money markets through its USD 4.5 billion commercial paper programs. On December 31, 2015, Aegon had EUR 125 million outstanding under these programs.

To support its commercial paper programs and need for Letters of Credit (LOCs), and to enhance its liquidity position, Aegon maintains backup credit and LOC facilities with international lenders. The Company's principal arrangement is a EUR 2 billion syndicated revolving credit facility maturing in 2019, and

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additional LOC facilities of USD 2.6 billion, which mature in 2020. In addition, Aegon also maintains various shorter-dated bilateral backup liquidity, and committed and uncommitted LOC facilities.

Operational leverage

Although operational leverage is not considered part of Aegon's total capitalization, it is an important source of liquidity and funding. Operational leverage relates primarily to financing Aegon's mortgage portfolios through securitizations, warehouse facilities, covered bonds, and the funding of US Regulation XXX and Guideline AXXX redundant reserves.

Aegon enters into reinsurance agreements for risk and capital management purposes with several affiliated captive insurance companies (captives). All captives are fully consolidated for IFRS reporting and for Solvency II based on local valuations under equivalence.

The captives are utilized for a number of purposes that may include:

- ⌚ Financing term life insurance (subject to Regulation XXX reserves) and universal life insurance with secondary guarantees (subject to Regulation AXXX reserves) to support lower-risk statutory reserves at a lower cost for policyholders and shareholders;
- ⌚ Managing variable annuity hedging programs;
- ⌚ Managing and segregating risks; and
- ⌚ Monetizing embedded value.

All external financing provided to captives to support statutory reserves is disclosed in note 39 (Borrowings) to the consolidated financial statements to the extent to which it has been funded. LOCs issued by third parties provided to captives to provide collateral to affiliated insurers are disclosed in note 48 Commitments and contingencies. These LOCs have been provided by third parties for the benefit of the affiliated company whose liabilities are reinsured.

Liquidity management**Strategic importance**

Liquidity management is a fundamental building block of Aegon's overall financial planning and capital allocation processes. Aegon aims to have sufficient liquidity to meet cash demands even under extreme conditions. The Company's liquidity risk policy sets guidelines for its operating companies and the holding in order to achieve a prudent liquidity profile.

Liquidity is coordinated centrally and managed both at Aegon N.V. and at the business unit level. Aegon maintains a liquidity policy that requires all business units to project their sources and uses of liquidity over a two-year period under normal and severe business and market scenarios. This policy ensures that liquidity is measured and managed consistently across the Company, and that liquidity stress management plans are in place.

Sources and uses of liquidity

Aegon's subsidiaries are primarily engaged in the life insurance and pensions business, which is a long-term business with relatively illiquid liabilities and generally matching assets. Liquidity consists of liquid assets held in investment portfolios, in addition to inflows generated by premium payments and customer deposits. These are used primarily to purchase investments, as well as to fund benefit payments to policyholders, policy surrenders, operating expenses, and, if the subsidiary's capital position so allows, to pay dividends to the holding.

At the holding company Aegon N.V., liquidity is sourced from internal dividends from business units and through the capital markets. The main sources and uses of liquidity at the holding company Aegon N.V. are dividends from subsidiaries, movements in debt, net expenses (including interest), funding operations, capital returns to shareholders and the balance of acquisitions and divestitures. The ability of Aegon's insurance subsidiaries to transfer funds to the holding company is constrained by the need for these subsidiaries to remain adequately capitalized at the levels set by local insurance regulations, and as administered by local insurance regulatory authorities.

In order to ensure the holding company's ability to fulfil its cash obligations, it is Aegon's policy that the holding company holds liquid assets in reserve to fund a minimum of 1.5 years of holding company operating and funding expenses, without having to rely on the receipt of funds from its subsidiaries and without the need to access capital and money markets.

Insurance laws and regulations in local regulatory jurisdictions often contain minimum regulatory capital requirements, which during 2015 included 100% of the Authorized Control Level (ACL) for US insurance entities, 100% Solvency I required capital for Dutch insurance companies, and 100% Solvency I Pillar 1 capital for insurance companies in the United Kingdom.

Table of Contents**90 Business overview Capital and liquidity management**

The minimum regulatory capital requirements for Aegon's main subsidiaries and the actual capitalization levels on December 31, 2015, are included in the following table:

Capital requirements	Legal/regulatory minimum capital requirement	Actual capitalization	Excess over legal/regulatory minimum
	100% Authorized Control Level (NAIC RBC ACL)		
United States ¹⁾		~920% of combined ACL	~EUR 6.7 bln
The Netherlands ²⁾	100% Solvency I	~240% Solvency I	~EUR 2.7 bln
United Kingdom ³⁾	100% Solvency I (Pillar 1)	~165% Solvency I (Pillar 1)	~EUR 1.1 bln

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

² Excluding the banking activities.

³ Including the With Profits fund at unaudited June 30, 2015 values.

Local insurance regulators generally use their discretionary authority and judgment to restrict and/or prohibit the transfer of funds to the holding company to capital levels well above the minimum capital requirements contained in the applicable insurance regulations. The discretionary nature of the regulatory assessment of capital adequacy creates a natural ambiguity with regards to the exact level of capital required by local regulatory authorities. Precise capitalization levels effectively required by local insurance regulators are often not known in advance, in part because the views and risk tolerances of certain regulators for certain asset classes continue to develop over time, in line with the development and evolution of local, regional and global regulatory capital frameworks. In practice, and for transfer of funds purposes, Aegon manages the capitalization of its subsidiaries in excess of the minimum regulatory capital requirements contained in the applicable regulations, as shown in the table above.

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

Aegon's liquidity position

On December 31, 2015, Aegon held a balance of EUR 1.4 billion in excess capital at group level, compared with EUR 1.2 billion on December 31, 2014, an increase that reflects the net impact of dividends from subsidiaries, capital injections in subsidiaries, divestments, acquisitions, deleveraging initiatives, holding expenses and capital returns to shareholders.

Aegon's liquidity is invested in accordance with the Company's internal risk management policies. Aegon believes its working capital, backed by its external funding programs and facilities, is ample for the Company's present requirements.

External dividends

In order to enable equity investors to share in Aegon's performance, Aegon aims to pay out a sustainable dividend, which may increase based on Aegon's performance. After investments have been made in new business to generate organic growth, capital generated by Aegon's operating subsidiaries is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating subsidiaries in line with Aegon's capital management and liquidity risk policies.

Aegon uses cash flows from its operating subsidiaries to pay holding expenses, including funding costs. The remaining cash flow is available to execute Aegon's strategy and to fund dividends on its shares. When determining whether to declare or propose a dividend, Aegon's Executive Board balances prudence with offering an attractive return to shareholders. This is particularly important during adverse economic and/or financial market conditions. Furthermore, Aegon's operating subsidiaries are subject to local insurance regulations that could restrict dividends to be paid to the holding company. There is no requirement or assurance that Aegon will declare and pay any dividends.

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Regulation and Supervision

Individual Aegon companies are each subject to prudential supervision in their respective home countries. Insurance and banking companies, together with a number of the investment undertakings in the Group, are required to maintain a minimum solvency margin based on local requirements. In addition, some parts of the Group are subject to prudential requirements on a consolidated basis, including capital and reporting requirements. Such additional requirements lead, in certain circumstances, to duplicative requirements, such as the simultaneous application of consolidated banking requirements and Solvency II group solvency requirements. Eligible capital to cover solvency requirements includes shareholders' equity, perpetual capital securities, and dated subordinated debt.

Insurance Groups Directive

Until December 31, 2015, EU supervisors, such as De Nederlandsche Bank (The Dutch Central Bank, DNB), were required to carry out supplementary supervision on European insurance and reinsurance companies in an insurance group, based on the EU's Insurance Groups Directive (EU Directive 98/79/EC, the Insurance Groups Directive). The supplementary supervision of insurance companies in an insurance group enables EU supervisors to make a detailed assessment of the financial position of the EU insurance and reinsurance companies that are part of that group. The provisions of the Insurance Groups Directive require EU supervisors, including DNB, to take the relevant financial affiliations between the insurance companies, and other entities in the Group into account. Aegon was therefore required to submit reports to its EU supervisors twice a year setting out supplemental capital adequacy calculations of the insurance companies, risk concentrations and significant transactions and positions between insurance and non-insurance companies in the Group. The requirements of the Insurance Groups Directive are included in the Solvency II framework, which entered into force in EU member states on January 1, 2016. The Insurance Groups Directive was repealed, effective as of the same date.

Solvency II**Introduction**

The Solvency II framework imposes prudential requirements at group level as well as on the individual EU insurance and reinsurance companies in Aegon. Insurance supervision is exercised by local supervisors on the individual insurance and reinsurance companies in the Aegon group, and by the group supervisor at group level. DNB is Aegon's Solvency II group supervisor. Solvency II introduces economic, risk-based capital requirements for insurance and reinsurance companies in all EU member states, as well as for groups with insurance and/or reinsurance activities in the EU. These capital requirements should, compared with the current Solvency I and IGD framework, better reflect the actual risk profile of insurance and reinsurance companies and insurance groups. The Solvency II approach to

prudential supervision can be described as a total balance sheet-approach, and takes material risks to which insurance companies are exposed into account in addition to the correlation between these risks.

The Solvency II framework is structured along three pillars. Pillar 1 comprises quantitative requirements (including technical provisions, valuation of assets and liabilities, solvency requirements and own fund requirements). Pillar 2 requirements include governance and risk management requirements, and requirements for effective supervision (the supervisory review process). Pillar 3 consists of disclosure and supervisory reporting requirements. These three pillars should not only be considered in isolation, but interact with one another. More complex risks, for instance, require a stronger risk management and governance structure, and a more complex governance structure could lead to higher capital requirements.

In addition to these requirements, which apply to individual EU insurers and reinsurers, the Solvency II framework is complemented by requirements that apply at group level (group supervision). This means that a number of requirements from the Solvency II framework that apply to the individual EU insurance and reinsurance undertakings apply, with the necessary modifications at group level. The core focus of EU insurance supervision continues to be on the supervision of individual EU insurance and reinsurance undertakings. In addition, group supervision remains supplementary to the supervision of individual insurance and reinsurance undertakings, and group supervision encompasses more extensive requirements than supplementary supervision under the EU Insurance Groups Directive.

Pillar 1

Solvency II requires EU insurance and reinsurance companies to determine technical provisions at a value that corresponds with the present exit value of their insurance and reinsurance obligations towards policyholders and other beneficiaries of insurance and reinsurance contracts. The calculation of the technical provisions should be based on market consistent information to the extent to which that information is available. The value of the technical provisions is equal to the sum of a best estimate and a risk margin. The discount rate at which technical provisions are calculated is an important element in order to determine the technical provisions. This and other parameters to determine the technical provisions may have an important effect on the amount and volatility of the own funds that insurance and reinsurance undertakings are required to maintain. The Solvency II framework contains several measures (in particular the volatility and matching adjustment) that should reduce volatility of the technical provisions and own funds, in particular for insurance and reinsurance products with long-term guarantees.

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Insurers and reinsurers are required to hold eligible own funds in addition to the assets held to cover the technical provisions in order to ensure that they are able to meet their obligations over the next 12 months with a probability of at least 99.5% (insurance or reinsurance company's balance sheet ability to withstand a 1-in-200-year event). The buffer that insurance and reinsurance companies are required to hold is the Solvency Capital Requirement (SCR). Insurance and reinsurance companies are allowed to: (a) use a standard formula to calculate their SCR (the rules for which are set out in detail in the Solvency II rules and guidelines); (b) use an internal model (for which the approval of the supervisory authorities is required); or (c) use a partial internal model (a combination of the standard formula and an internal model). An internal model is developed by the insurance or reinsurance company in question, and should better reflect the actual risk profile of the insurance or reinsurance company than the standard formula. Aegon (as a group) uses a partial internal model.

In addition to the SCR, insurance and reinsurance companies should also calculate a Minimum Capital Requirement (MCR). This represents a lower level of financial security than the SCR, below which the level of eligible own funds held by the insurance or reinsurance company is not allowed to drop.

Insurance and reinsurance companies are required to hold eligible own funds against the SCR and MCR. The capital is divided into three tiers in accordance with the quality of the own funds. The lower tiers of own funds (tier 2 and tier 3) may only represent a certain part of the eligible own funds. Furthermore, the SCR may be covered up to limited amounts with off-balance sheet own funds (ancillary own funds such as letters of credits or guarantees). The MCR should be covered entirely by on-balance sheet items (basic own funds).

Pillar 2

Under Pillar 2, insurance and reinsurance companies are required to set up and maintain an adequate and effective system of governance, which includes an appropriate internal organization (such as policies and procedures), a risk governance system and an effective assessment of the risk and solvency position of the company (including a prospective assessment of risks), through the Own Risk and Solvency Assessment (ORSA) process. In general, Solvency II requires insurance and reinsurance companies to maintain an effective system of governance that is proportionate to the nature, scale and complexity of the insurance or reinsurance company. A number of risks that insurance or reinsurance companies face can only be addressed through proper governance structures, rather than quantitative requirements. The management body of the insurance or reinsurance company is ultimately responsible for the maintenance of an effective governance system.

Insurance and reinsurance companies are required to have an adequate and transparent organizational structure, with a clear

allocation and appropriate segregation of responsibilities. The system of governance should be subject to regular internal review. Solvency II requires insurance and reinsurance companies to have written policies in a number of areas (such as risk management, internal control, internal audit and outsourcing (where appropriate)). A number of key functions are required to be part of the system of governance (compliance, risk management, the actuarial function and internal audit). The persons responsible for these functions are required to be fit and proper.

The Pillar 2 requirements include specific requirements relating to the risk management system. This should cover at least the following areas: underwriting and reserving, asset-liability matching, investments (in particular derivatives and similar commitments), liquidity and concentration risk management, operational risk management, reinsurance and other risk mitigating techniques. Risk management relating to Solvency II is discussed in further detail in the section risk management on page 83. As part of the risk management system, insurance and reinsurance undertakings are required to undertake an ORSA, which includes the overall solvency needs of the undertaking, taking into account the risk profile, risk tolerance limits and business strategy, the ongoing compliance with Solvency II capital requirements and rules regarding technical provisions, and the extent to which the risk profile of the undertaking deviates from the assumptions underlying the calculation of the SCR. Solvency II Pillar 2 requirements also include detailed requirements with respect to outsourcing, including intra group outsourcing.

The Supervisory Review Process (SRP), which is part of Pillar 2, allows supervisory authorities to supervise the ongoing compliance of insurance and reinsurance undertakings with Solvency II requirements. Possible enforcement measures include the imposition of capital add-ons (for instance in the event that the risk profile of the undertaking deviates from the SCR calculation or if there are weaknesses in the system of governance), the requirement to submit and execute a recovery plan (in the event of a (threatening) breach of the SCR or MCR), and ultimately the revocation of an insurance or reinsurance license (to the extent the measures relate to an EU licensed insurance or reinsurance undertaking and not to the group as a whole, which does not have a license).

Pillar 3

Solvency II introduces new and more detailed reporting and disclosure requirements than formerly prescribed under the Solvency I framework. These requirements include non-public supervisory reporting on a quarterly and annual basis through regular supervisory reports (RSR), complemented by detailed quantitative reporting templates (QRTs) containing detailed financial data. In addition, it will be a requirement to publish a Solvency and Financial Condition Report (SFCR) on an annual basis.

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Group supervision

Solvency II not only imposes regulatory requirements on individual EU insurance and reinsurance undertakings; many of the requirements that apply to the individual insurance and reinsurance undertakings apply, with the necessary modifications, at group level. These requirements include group solvency requirements, group reporting and disclosure requirements, and requirements regarding the system of governance, risk management and internal control framework at group level. The group requirements do not include an MCR. Solvency II does however require groups to maintain eligible own funds, at least equal to a floor, as further defined in the Solvency II rules (the absolute floor of the group solvency), which can be considered to be an MCR at group level. Although entities that are not subject to solo supervision under Solvency II (such as entities in other financial sectors, non-financial entities, and regulated and non-regulated entities in third countries) are not directly subject to Solvency II requirements, these entities may be affected indirectly by the Solvency II group requirements. Entities in other financial sectors are, in most cases, taken into account in the group solvency calculation, applying the capital requirements of that specific financial sector (such as Basel III requirements for banks and certain investment firms) and using the deduction and aggregation method for inclusion of these entities in the group calculation (as opposed to the accounting consolidation method, which is the default method under Solvency II). However, subject to certain conditions, entities in other financial sectors may be included in accordance with the accounting consolidation method. In particular, this may be the case where the group supervisor (DNB) is satisfied as to the level of integrated management and internal control regarding these entities. Furthermore, DNB may require groups to deduct any participation from the own funds eligible for the Group Solvency ratio. Accordingly, Aegon will deduct its participation in Aegon Bank N.V. from Aegon's group solvency.

As referred to in the capital and liquidity management section, Aegon uses a combination of the two aggregation methods defined within the Solvency II framework to calculate the Group Solvency ratio, the Accounting Consolidation method and the Deduction and Aggregation method. Aegon applies the Accounting Consolidation method as the default method. However, for insurance entities domiciled outside the EEA for which provisional or full equivalence applies, such as the United

States, Aegon uses the Deduction and Aggregation method, with local regulatory requirements to bring these into the Group Solvency position. US insurance and reinsurance entities are included in Aegon's group solvency calculation in accordance with local US (RBC) requirements. Aegon uses 250% of the local RBC Company Action Level (CAL) as the SCR equivalent. The RBC and CAL are both described in more detail in note 46. The classification or tiering of Aegon's capital is based on distinct tier limits for the part of the group covered by Accounting Consolidation Method (where tier limits are based on the SCR of the consolidated part of the group, i.e. the consolidated group SCR) and for the part of the group covered by the Deduction and Aggregation Method. If a prudential regime of an equivalent or provisionally equivalent third country (such as the regulatory regimes in the United States) does not categorize own funds into tiers or defines tiers which are significantly different from those established under the Solvency II Directive, then, in line with EIOPA's opinion of January 27, 2016 (EIOPA-BoS-16-008), the own funds brought in by the Deduction and Aggregation Method are allocated to tiers according to the principles laid down in Articles 87 to 99 of the Solvency II Directive for each individual third-country insurance undertaking. Entities belonging to other financial sectors are usually included in the Group Solvency Calculation using prudential requirements applicable to that specific sector and using the Deduction and Aggregation Method.

Solvency II group supervision is exercised by a combination of the supervisory authorities of the local insurance and reinsurance entities and the group supervisor, which in Aegon's case is DNB. An important role in the cooperation between the supervisory authorities in the context of group supervision is played by the college of supervisors, in which the local and group supervisors are represented. This college is chaired by the group supervisor.

Financial conglomerate supervision

Since the beginning of October 2009, Aegon has been subject to supplemental group supervision by DNB in accordance with the requirements of the EU's Financial Conglomerate Directive. Supplemental group supervision pursuant to the Financial Conglomerate Directive includes supplementary capital adequacy requirements for financial conglomerates and supplementary supervision on risk concentrations and intra-group transactions in the financial conglomerate.

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G-SII designation

On November 3, 2015, Aegon was designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). The FSB reviews the G-SII designation annually. As a result of the G-SII designation, Aegon will be subject to an additional layer of direct supervision at group level. G-SIIs will be required (as of January 2019) to hold an additional capital buffer (Higher Loss Absorbing Capacity or HLA) in addition to the capital buffer (Basic Capital Requirements or BCR) internationally active insurance groups will be required to hold pursuant to IAIS

guidelines. Furthermore, within 12 months of a G-SII designation, G-SIIs will be required to develop a liquidity risk management plan, a systemic risk management plan, and an *ex ante* recovery plan. Relevant supervisory authorities will be required to: establish a crisis management group (within 6 months after G-SII designation); develop a resolution plan based on a resolution strategy and enter into a cross-border cooperation agreement (within 18 months); and conduct a resolvability assessment (within 24 months). The precise consequences of the G-SII designation are not yet fully clear, as relevant parts of the IAIS guidelines still need to be determined (and where appropriate, subsequently included in formal regulation).

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Report of the Supervisory Board

The Supervisory Board is entrusted with supervising and advising the Executive Board on management of the Company, and overseeing Aegon's strategy and the general course of its businesses.

Oversight and advice

In performing their duties, members of the Supervisory Board are guided by the interests of Aegon and the Company's stakeholders. The Supervisory Board is a separate corporate body, independent of the Executive Board. The Supervisory Board consists of nine members. For further details on its individual members, please see pages 103 and 104.

The Supervisory Board is charged with the supervision of the Executive Board, of the general course of affairs of the Company, and of its businesses.

The duties of the Supervisory Board with regard to the activities of members of the Executive Board are published in the Supervisory Board Charter, which is published on Aegon's corporate website, aegon.com. The Supervisory Board makes recommendations to the General Meeting of Shareholders concerning all appointments and reappointments to, and dismissals from, both the Executive Board and the Supervisory Board.

In addition, the Supervisory Board determines the remuneration of individual members of the Executive Board in line with the Remuneration Policy adopted at the Company's General Meeting of Shareholders. Overall accountability for Aegon's remuneration governance also resides with the Supervisory Board, which is advised by its Remuneration Committee. This includes the responsibility for designing, approving and maintaining the Aegon Group Global Remuneration Framework, including the remuneration policies for the Executive Board, Identified Staff, and for staff in Control Functions.

Corporate governance

Details of Aegon's corporate governance structure and a summary of the Company's compliance with the Dutch Corporate Governance Code and other relevant Codes and Regulations can be found on pages 113 and 116 of this Annual Report and in the Corporate Governance Statement published on Aegon's corporate website, aegon.com.

Composition of the Supervisory Board and

Executive Board

Supervisory Board

The composition of the Board is discussed regularly in Board meetings and in particular by the Nominating and Governance Committee. An overview of the composition of the Supervisory Board in 2015 can be found on pages 103 and 104.

Mr. Leo van Wijk resigned as a member of the Board on May 20, 2015, at the end of his third and final term. The Board greatly benefitted from his knowledge and experience, and is grateful for his many contributions. On May 20, 2015, shareholders approved the appointment of Mr. Ben Noteboom to the Board for a term of four years.

All members of the Supervisory Board are considered independent under the terms of the Dutch Corporate Governance Code.

Executive Board

The Executive Board consists of two members, Alex Wynaendts, Chief Executive Officer (CEO), and Darryl Button, Chief Financial Officer (CFO). In compliance with the Dutch Corporate Governance Code, members of the Executive Board are appointed by shareholders for a term of four years, with the option of reappointment for additional four-year terms. Mr. Wynaendts' second term as CEO ended in 2015. Following the recommendation from the Nominating and Governance Committee, and in view of his broad international and financial services experience, his leadership and vision and his performance as CEO, the Supervisory Board proposed to the shareholders to reappoint Mr. Wynaendts at the Annual General Meeting of Shareholders of May 20, 2015, as a member of the Executive Board for another four-year term as of May 20, 2015. The Board has full confidence that with Mr. Wynaendts as CEO, Aegon is well-positioned to deliver on its purpose – to help people achieve a lifetime of financial security. Shareholders reappointed Mr. Wynaendts as CEO to the Executive Board in the General Meeting of Shareholders of May 20, 2015. The appointment schedule and other information about members of the Executive Board are available on Aegon's corporate website, aegon.com.

Board meetings

Attendance

In 2015, the Supervisory Board had seven regular (face-to-face) meetings: four related to the quarterly results, one on the annual report, one on strategy and one on the budget and Medium Term Plan. In addition, there were seven conference calls, the majority of which were updates in between the face-to-face meetings. Meetings of the Committees of the Supervisory Board committees were usually held the day before the meetings of the full Supervisory Board. All but one of the regular board meetings were attended by all board members, and all committee meetings were attended by all committee members. An overview of the attendance by Supervisory Board members per meeting is provided in the following table.

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					Remuneration	Nomination & Governance	Combined Audit & Risk
Name	Regular SB meeting	SB conference call	Audit Committee	Risk Committee	Committee	Committee	Committee
Rob Routs	7/7	7/7	-	-	6/6	6/6	1/1
Irv Bailey	7/7	7/7	6/6	-	6/6	-	1/1
Bob Dineen	7/7	7/7	6/6	4/4	-	-	1/1
Shemaya							
Levy	7/7	7/7	-	4/4	-	6/6	1/1
Ben							
Noteboom ¹⁾	4/4	4/4	3/3	-	3/3	-	1/1
Ben van der							
Veer	7/7	7/7	6/6	-	-	6/6	1/1
Dick							
Verbeek	7/7	7/7	6/6	4/4	-	3/3	1/1
Leo van							
Wijk ¹⁾	3/3	2/3	-	-	3/3	3/3	-
Corien							
Wortmann	7/7	7/7	-	4/4	6/6	-	1/1
Dona Young	7/7	7/7	6/6	4/4	-	-	1/1

¹ Where a Supervisory Board member retired from the Supervisory Board, stepped down from a Committee or was appointed throughout the year, only meetings during his / her tenure are taken into account.

Members of the Executive Board and Management Board were present at most of the Supervisory Board meetings held in 2015. At the request of the Supervisory Board, other Aegon executives also attended the meetings to provide reports and updates on specific topics. Representatives from Aegon's external auditor PwC attended the March Supervisory Board meeting on Aegon's annual report. PwC also attended all 2015 Audit Committee meetings. Regular Board meetings were preceded or followed by executive sessions – meetings of the Supervisory Board without the presence of Executive Board or Management Board members.

Activities

The key topics discussed during the 2015 Supervisory Board meetings were the quarterly results, Aegon's strategy, acquisitions, divestments and preparations for the introduction of the Solvency II capital regime in 2016.

Quarterly results were discussed on the basis of feedback from the Audit Committee. The full-year results reported in the Annual Report were discussed in the March meeting in the presence of the external auditor PwC.

The Supervisory Board was closely involved in defining the strategic direction for the Company. Plans and projects were discussed during executive sessions and in regular meetings. Agreement was reached on the strategic framework during the June meeting. This included the measures to achieve Aegon's financial targets, in particular a return on

equity of 10%. The strategic focus for all Business Units was discussed, in particular the strategies for the Americas, the Netherlands, UK, Central & Eastern Europe, Asia, and Asset Management. Digitization of the business is a key priority company-wide, changing it from a primarily product-oriented to a fully client-oriented company.

Acquisitions and divestments were discussed in the context of the strategy. The Supervisory Board supported the active management of the business portfolio with add-on acquisitions, the sale of underperforming businesses and disposals of entities that are no longer consistent with the strategy. While acquisitions and divestments of EUR 50 million or more require Supervisory

Board approval, smaller add-ons and divestments were also discussed.

Updates on the Company's readiness for the introduction of Solvency II were discussed during Board meetings. All current Supervisory Board members followed an extensive Solvency II education program. The annual strategy meeting in June was partly dedicated to a full update on all Solvency II preparations, with discussions on the expected Solvency II ratios for both the Group as a whole and for individual business units, in addition to operational readiness.

At the Supervisory Board meeting in December, the budget for 2016 was approved and the Medium Term Plans were discussed.

In 2015, Supervisory Board discussions included the following topics:

- ⌚ Strategy, including Aegon's sustainability program and business reviews;
- ⌚ Acquisitions, divestments and the restructuring of businesses;
- ⌚ Executive Board and senior management succession planning;
- ⌚ Senior appointments;
- ⌚ Executive remuneration;
- ⌚ Governance and composition of the Supervisory Board;
- ⌚ Technological developments and the application of these to enhance customer centricity;
- ⌚ Human resources, including talent development and results of the global employee survey;
- ⌚ Annual and quarterly results, dividend and the Group Medium Term Plan, including the 2016 budget and capital plan;
- ⌚ Capital position (including hedging programs to protect the capital position) and Solvency II;
- ⌚ Enterprise risk management;
- ⌚ Investor relations;
- ⌚ Legal, regulatory and compliance issues, and Aegon's engagement with regulators;
- ⌚ Accounting changes, including voluntary accounting policy changes adopted as of January 1, 2016;
- ⌚ Actuarial changes; and
- ⌚ IT and IT security.

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Highlights

One of the key focus areas of the Supervisory Board in 2015 was Solvency II, the European regulatory framework for insurers and insurance groups. Solvency II entered into force on January 1, 2016, and includes risk-based capital requirements, an Own Risk and Solvency Assessment (ORSA), group supervision, supervisory review processes, and reporting and disclosure requirements. Management presented regular updates on Solvency II and the Company's readiness to comply with it. In addition, the Board followed an extensive Solvency II education program. During the strategy offsite meeting in June 2015, in Budapest, Hungary, the Supervisory Board and the Management Board had extensive discussions about Group and business unit strategies, digital transformation and Solvency II. The Board reviewed the progress of the execution of Aegon's strategic objectives, and the challenges the Company faces. After the December 2014 Board review of Aegon's Sustainability Program, the Board discussed the progress of this program again in May 2015. Further details of Aegon's sustainability vision and progress are available in Aegon's 2015 Review.

In recognition of the importance of succession planning and talent management, the Board received updates from Aegon's Global Head of Human Resources on progress made towards achieving the objectives of the talent agenda: attracting new staff with a wide range of different skills and experience; identifying sufficient qualified succession candidates; and strengthening the talent pipeline for future succession. The Board also received and discussed the results of the annual Global Employee Survey.

During the year, the Board discussed various M&A transactions and divestitures: the strategic asset management partnership with La Banque Postale in France was completed in June; and Transamerica expanded its distribution partnership with Edward Jones and acquired Mercer's U.S. defined contribution record keeping business. The divestitures of Aegon's 35% equity stake in La Mondiale Participations in France, Clark Consulting in the US, and Aegon's Canadian life insurance business were also completed in 2015. In December of 2015, the Supervisory Board visited Denver, US, for an in-depth review of the Americas' strategy.

A long-lasting dispute ended after the appeal period of the court approval expired and the restrictions on the capital of the harbor workers' former pension fund Optas Pensioen N.V. were removed.

Results and budget

In February 2015, the Supervisory Board convened to discuss the results of the fourth quarter of 2014. In March 2015, the Supervisory Board reviewed and adopted Aegon's 2014 Annual Report, the Consolidated Financial Statements of Aegon N.V. and the Financial Statements of Aegon N.V.. In May, August and November, the Supervisory Board reviewed Aegon's first, second and third quarter 2015 results respectively.

In December 2015, the Supervisory Board and Management Board reviewed the Group Medium Term Plan, including the budget for 2016. The Boards took notice of the uncertainties and challenges in the coming years as described in the Plan. These included, among others: increased regulatory requirements, low interest rates, market volatility, digital developments and the changing distribution landscape. The Board discussed Aegon's cash flow and capital projections, together with the continued focus on cost efficiency. The Plan provides for a continuation of investments in digital capabilities to increase customer connectivity. The Board supported the Plan and approved the budget for 2016. The

Board also approved the 2016 capital plan and authorized the Executive Board to execute the capital plan in 2016. Discussions about the strategy process will be continued on a regular basis by both the Management Board and Supervisory Board.

Legal and compliance

In 2015, the Supervisory Board and the Audit Committee discussed a number of compliance, regulatory and legal topics relating to Europe, the United States, Asia, and Asset Management with management, the General Counsel and the Global Head Regulatory Compliance. In particular, the Board discussed the possible consequences of being designated as a Global Systematically Important Insurer (G-SII), restructuring of the Compliance and Operational Risk Management (ORM) operating models, and the relationship with local regulators.

After discussions in the Nominating and Governance Committee, the Board Profile and all Charters of the Supervisory Board, Supervisory Board Committees, Executive Board and Management Board were reviewed and updated. The updated Board Profile and Charters are available on Aegon's corporate website.

The Chairmen of the Supervisory Board, Audit and Risk Committees visited the group regulator (Dutch Central Bank, DNB) to discuss issues of strategy, risk management and compliance.

Educational sessions and Board review

The Board and its Committees received updates and presentations on topics ranging from Solvency II and investor relations, to developments in information security and reinsurance. The Audit Committee, joined by several other members of the Board, held a meeting that focused on the European regulatory framework for insurers and insurance groups in the run-up to Solvency II and the consequences for Aegon.

The Supervisory Board undertakes a Board self-assessment on an annual basis. In the beginning of 2015, the Supervisory Board met to review and discuss the results of the 2014 assessment in the absence of management. The Board agreed that it had continued to make progress, and that it functioned well and fulfilled its duties and responsibilities in a satisfactory way. In the same meeting, the Board listed the priorities for the Board to address in 2015. An external advisor interviewed each member of

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the Board on the basis of a completed written questionnaire towards the end of 2015. The 2015 review assessed the collective performance and effectiveness of the Board and its committees, and the performance of the Chairman.

The performance of the members of the Executive Board was discussed regularly during 2015 and at a dedicated meeting of the Nominating and Governance Committee in December. In February 2015 and in February 2016, respectively, the Supervisory Board reviewed the performance of individual members of the Management Board over the preceding calendar year.

[Supervisory Board committees](#)

The Supervisory Board has four committees that discuss specific issues in depth and prepare items about which the full Board makes decisions. The committees report verbally about their discussions to the full Supervisory Board at Supervisory Board meetings. Supervisory Board members receive all minutes of the committee meetings. Committee meetings are open to all members of the Board, regardless of membership of the committees. All committee reports have been prepared by the respective committees and were approved by the Supervisory Board. These provide an overview of the responsibilities and activities of the committees.

The four committees are the:

- ⌚ Audit Committee;
- ⌚ Risk Committee;
- ⌚ Nomination and Governance Committee; and
- ⌚ Remuneration Committee.

[The Audit Committee](#)**[Composition](#)**

On December 31, 2015, the composition of the Audit Committee was as follows:

- ⌚ Ben van der Veer (Chair)
- ⌚ Irving W. Bailey II
- ⌚ Robert W. Dineen
- ⌚ Ben J. Noteboom
- ⌚ Dirk P.M. Verbeek
- ⌚ Dona D. Young

The members of the Audit Committee meet all relevant independence and experience requirements of financial administration and accounting for listed companies. The Committee confirmed that all of its members qualified as independent according to Rule 10A-3 of the SEC, and it also confirmed that Ben van der Veer qualifies as a financial expert according to the terms and conditions of the Dutch Corporate Governance Code and the Sarbanes Oxley Act in the United States.

[Role and responsibilities](#)

As Aegon has both an Audit Committee and a Risk Committee, the risk management responsibilities as mentioned in the Dutch Corporate Governance Code are assigned to the Risk Committee. With regard to the oversight of the operation of the risk management framework and risk control systems, including supervising the enforcement of relevant legislation and regulations, the Audit Committee primarily relies on the Risk Committee as established by the Board.

The main role and responsibilities of the Audit Committee are to assist and advise the Supervisory Board in fulfilling its oversight responsibilities regarding:

- The integrity of the consolidated interim and full-year financial statements and financial reporting processes;
- Internal control systems and the effectiveness of the internal auditors; and
- The performance of the external auditors and the effectiveness of the external audit process, including monitoring the independence and objectivity of PwC.

The Audit Committee reports to the Supervisory Board on its activities, identifying any matters about which it considers action or improvements are needed, and making recommendations as to the steps to be taken. For more information about the functioning of the Audit Committee, please see the Audit Committee Charter on aegon.com.

Committee meetings

In 2015, the Audit Committee had seven meetings including conference calls, one of which was a combined meeting with the Risk Committee of the Supervisory Board. The Audit Committee meetings are typically attended by the members of the Audit Committee, Aegon's Chief Financial Officer, Corporate Controller, Chief Risk Officer, internal auditor and partners of PwC, Aegon's external auditor. Members of Aegon's Group Risk, Group Legal and Investor Relations were often present at the Audit Committee meetings. Additional sessions were regularly held with internal and external auditors at the end of Audit Committee meetings. Members of the Executive Board were not present at these extra sessions.

At various meetings, the Audit Committee and the full Supervisory Board also reviewed the changes to Aegon's accounting policies relating to certain reinsurance transactions, in addition to insurance accounting for its business in the UK, as part of the execution of the financial strategy as announced in January 2016.

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Financial reporting

In discharging their responsibilities in respect of the 2015 interim and full year financial statements, the Audit Committee:

- ⌚ Reviewed the critical accounting policies (and proposed changes effective January 1, 2016) and compliance with applicable accounting standards and other disclosure requirements and received regular update reports on accounting and regulatory developments;
- ⌚ Reviewed PwC's quarterly board reports;
- ⌚ Reviewed and discussed with PwC, the Executive Board and the Management Board the annual management letter and follow up actions;
- ⌚ Received presentations on various topics by local business unit managers and chief financial officers; and
- ⌚ Reviewed and discussed areas of significant judgments in the preparation of the financial statements, including in particular: model validation remediation, investment valuation and impairments, economic and actuarial assumption setting, and the guarantee hedge programs.

The Audit Committee received detailed written and verbal reports from the external auditors on these matters. The Audit Committee was satisfied with the explanations provided and conclusions reached. Recurring items on the Audit Committee agenda in 2015 were Solvency II capital position and Solvency II reporting.

Risk management and internal controls

With respect to their oversight of accounting risk management and internal controls (provided they did not pertain to the work and responsibilities of the Risk Committee) the Audit Committee:

- ⌚ Reviewed and approved the internal audit plan for 2015 and monitored execution, including progress in respect of recommendations made;
- ⌚ Discussed quarterly updates on the activities of the internal audit function, together with details of progress on internal audits with the internal auditor. Focus areas in 2015 included hedging policies and processes, information security and progress on preparing for the new Solvency II regime (in relation to approval of partial internal model application); and
- ⌚ Discussed the internal control statement with the Executive Board.

The Audit Committee also reviewed Aegon's compliance with the US Sarbanes Oxley Act and regular reports from the Global Head Regulatory Compliance on operational risk. In addition, the Committee reviewed quarterly legal updates.

External audit effectiveness

The Audit Committee discussed and approved the external auditor's engagement letter and the audit plan for 2015. Aegon has well established policies on audit effectiveness and independence of auditors that set out, inter alia:

- ⌚ The review and evaluation of the external auditor and the lead partner of the external audit team on at least an annual basis;
- ⌚ Non-audit services performed by the external auditor;

- Rotations of external auditor and lead partner as required by law; and
- Discussion about planning and staffing of the external audit activities.

For more information about the policies relating to the effectiveness and independence of the external auditor, please see Annex A, B and C of the Audit Committee Charter, as revised in August 2015, on Aegon's corporate website, aegon.com.

The Risk Committee

Composition

On December 31, 2015, the composition of the Risk Committee was as follows:

- Shemaya Levy (Chair)
- Robert W. Dineen
- Dirk P.M. Verbeek
- Corien M. Wortmann-Kool
- Dona D. Young

Role and responsibilities

Aegon has both an Audit Committee and a Risk Committee. The risk management responsibilities as mentioned in the Dutch Corporate Governance Code are allocated to the Risk Committee.

The main role and responsibilities of the Risk Committee are to assist and advise the Supervisory Board in fulfilling its oversight responsibilities regarding the effective operation and appropriateness of the Enterprise Risk Management (ERM) framework and internal control systems of Aegon N.V. and its subsidiaries and affiliates that comprise the Aegon Group. This includes:

- risk strategy, risk tolerance and risk governance;
- product development and pricing;
- risk assessment;
- risk responses and internal control effectiveness;
- risk monitoring;
- risk reporting; and
- regulatory compliance.

Furthermore, the Risk Committee regularly reviews risk exposures as they relate to capital, earnings and compliance with risk policies. The Company's risk management is an important topic for the Supervisory Board, especially in the current financial climate.

For more information about the functioning of the Risk Committee, please see the Risk Committee Charter on aegon.com.

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[Committee meetings](#)

The Risk Committee works closely together with the Audit Committee and has an annual combined meeting, which was this year held in December. The focus during this combined meeting was on financial reporting and associated controls, key risk tolerances and risk management tools, IT security, and regulatory compliance matters, the latter of which included discussions about the status and scope of the Company's Solvency II (SII) Partial Internal Model (PIM) application, and the design of key control functions under this new regulatory regime.

The Risk Committee convened five times in 2015, including the combined meeting with the Audit Committee. The Company's Group Chief Risk Officer and the members of Aegon's Executive Board attended all meetings.

Recurring items on the Risk Committee agenda in 2015 were the quarterly risk dashboard and the Board risk list. The Risk Committee also discussed risk priorities and Aegon's risk strategy. The Recovery Plan, which was introduced in 2014, was updated in 2015.

In addition, the Risk Committee dedicated significant time overseeing the Company's preparations for Solvency II compliance and the PIM application process, including sessions on:

- the Solvency II PIM design;
- review of model validation findings; and
- the Company's own risk and solvency assessment (ORSA).

[The Nomination and Governance Committee](#)

[Composition](#)

On December 31, 2015, the composition of the Nomination and Governance Committee was as follows:

- Robert J. Routs (Chair)
- Shemaya Levy
- Ben van der Veer
- Dirk P.M. Verbeek

[Role and responsibilities](#)

The main role and responsibilities of the Nomination and Governance Committee are to assist and advise the Supervisory Board in fulfilling its responsibilities in the areas of Human Resources Management and Corporate Governance. This includes, inter alia:

- board member and senior management succession planning;
- drawing up selection criteria and procedures;
- advising on and proposing nominations, appointments and reappointments;
- reviewing and updating the board profile and charters for the Board and committees;
- discussing annual employee survey; and
-

overseeing the corporate governance structure of the Company, compliance with the Dutch Corporate Governance Code and any other applicable corporate governance legislation and regulations.

Committee meetings

Aegon's Nomination and Governance Committee had six meetings in 2015. In addition to the committee members, these meetings are typically attended in whole or in part by the CEO, the Global Head of Human Resources and the General Counsel.

Supervisory Board related activities

The Nomination and Governance Committee discussed the composition of the Supervisory Board and its Committees, current and upcoming vacancies and governance topics. After updating the Supervisory Board Charter, updates for the Charters for the Audit Committee, Risk Committee, Remuneration Committee and Nomination and Governance Committee were prepared and discussed by the Nomination and Governance Committee during the course of 2015. To better reflect the activities of this Committee, the name was changed to the Nomination and Governance Committee. These updates were later discussed and approved by the full Supervisory Board. An update of the Supervisory Board Profile was also discussed and approved in 2015.

Executive Board related activities

The Nomination and Governance Committee discussed the reappointment process and the rationale supporting the proposal to the Annual General Meeting of shareholders (AGM) in May 2015 to reappoint Alex Wynaendts as Aegon's CEO. During the year, the Committee reviewed the composition of the Executive Board and Management Board, together with the functioning and effectiveness of their members as individuals and as a team. Acknowledging the importance of good succession planning, the Committee also discussed with the CEO and Aegon's Global Head of Human Resources the extent to which sufficient internal candidates are available to fill positions at Executive Board, Management Board and senior management level in the event of an emergency, and when positions open up in the future. The CEO also discussed changes in the global senior management team with the Nomination Committee and Governance Committee during the year. The Committee was kept apprised of developments in employee engagement, talent management and international mobility. In February 2015, the full Board discussed these topics extensively with the Global Head of Human Resources. As in previous years, the Board noted that Aegon continued to make progress to ensure proper succession planning is in place. The Board was pleased with the results of the annual Global Employee Survey, which was conducted in January in 2015.

Gender diversity

Enhancing gender diversity in the Executive, Management and Supervisory Board is an important issue for Aegon. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into account in view of its aim of having a balanced Executive and Management Board composition.

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The Supervisory Board is aware that its current composition does not meet the balanced composition requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men). Following the appointment of Corien M. Wortmann-Kool in 2014, the gap with the balanced composition was reduced. When identifying candidates for open positions, the Board actively searches for suitable female candidates. It also instructs external search firms to present female candidates. While this has had a positive effect, the requirement has not yet been met.

The Remuneration Committee**Composition**

On December 31, 2015, the composition of the Remuneration Committee was as follows:

- Ben J. Noteboom (Chair)
- Irving W. Bailey II
- Robert J. Routs
- Corien M. Wortmann-Kool

Role and responsibilities

The main role and responsibilities of the Remuneration Committee are to advise the Supervisory Board and prepare decisions to be taken by the Board. The Committee is designated to safeguard sound remuneration policies and practices within the Aegon Group by overseeing the development and execution of these policies and practices. This includes inter alia:

- reviewing the Aegon Group Global Remuneration Framework and making recommendations on the outcomes;
- preparing recommendations regarding variable compensation both at the beginning and after the end of the performance year;
- to overseeing the remuneration of the Executive Board, Identified Staff and Group Control functions;
- preparing the information provided to shareholders on remuneration policies and practices, including the Remuneration Report.

In 2015, the Compensation Committee Charter was updated. This included a name change from Compensation Committee to Remuneration Committee.

Committee meetings

The Remuneration Committee had six meetings in 2015, all of which were attended in whole or in part by the CEO. Other regular attendees were the Global Head of Human Resources and Aegon's General Counsel. During the year, the Committee considered advice from the independent external consultant, Towers Watson, on specific topics and ascertained that these consultants did not also advise the members of the Executive Board.

The scope of the Remuneration Committee has broadened in recent years as a result of successive new regulations introduced by the EU (the Capital Requirements Directive III and IV, or CRD III and IV), together with the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors/European Banking Authority. These regulations have been implemented by way of the Decree on Sound Remuneration Policy (Regeling Beheerst Beloningsbeleid Wft 2011-RBB2) issued by the Dutch Central Bank.

The Committee discussed the effect of recent developments regarding regulatory and legislative changes on remuneration policy, including the Wbfo (Dutch legislation on Remuneration in the financial sector), effective as of February 2015. Particular attention was paid to the continuing public debate also during Aegon's AGM in May 2015 about executive remuneration in The Netherlands in relation to (future) legislation and interpretation thereof by the financial services industry. In addition, a number of discussions took place with regard to the extent to which disparities in pay between different countries affect the recruitment of senior management; and the best way to ensure a balance across the Company.

In 2015, the Remuneration Committee oversaw the further application, implementation and approval of Aegon's Group Global Remuneration Framework and the various policies and related procedures, including the Remuneration Policy for Identified Staff. This included:

- ⌚ setting the 2015 performance indicators and targets for remuneration purposes;
- ⌚ allocating variable compensation for 2014;
- ⌚ the scenario analysis of payout levels under the Executive Board Remuneration Policy; and
- ⌚ reviewing and/or approving the ex-ante assessments and ex-post assessments, any exemption requests under the remuneration policies, and changes to the list of Identified Staff.

Furthermore, the Committee discussed the results of the audit by the Internal Audit Department on the application of the Remuneration Framework in 2015.

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[Annual Accounts](#)

This Annual Report includes the Annual Accounts for 2015, which were prepared by the Executive Board and discussed by both the Audit Committee and the Supervisory Board. The Annual Accounts are signed by the members of the Executive Board and the Supervisory Board, and are on the agenda of the 2016 Annual General Meeting of Shareholders. The Supervisory Board recommends the shareholders to adopt the Annual Accounts.

[Acknowledgment](#)

The members of the Supervisory Board are very grateful for the work undertaken by the Executive and Management Boards in pursuit of Aegon's purpose of helping people achieve a lifetime of financial security.

We would like to thank Aegon's employees for all they do to serve Aegon's millions of customers, and we would also like to express our thanks to Aegon's business partners and loyal customers for their continued confidence in the Company.

Finally, the Board wishes to thank all those who invest in Aegon for their continued trust and confidence.

The Hague, the Netherlands, March 25, 2016.

Robert J. Routs

Chairman of the Supervisory Board of Aegon N.V.

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Members of the Supervisory Board**Robert J. Routs (1946, Dutch)**

Chairman of the Supervisory Board

Chairman of the Nomination and Governance Committee

Member of the Remuneration Committee

Robert J. Routs is a former Executive Director for Downstream at Royal Dutch Shell. He was appointed to Aegon's Supervisory Board in 2008 and became Chairman in 2010. His current term as a member of the Aegon Supervisory Board ends in 2016. Mr. Routs is also Chairman of the Supervisory Board of Royal DSM N.V. and sits on the Board of Directors at ATCO Ltd., A.P. Møller - Mærsk A/S and AECOM Technology Corporation.

Irving W. Bailey II (1941, American)

Vice-Chairman of the Supervisory Board

Member of the Audit Committee

Member of the Remuneration Committee

Irving W. Bailey II is retired Chairman and Chief Executive Officer of Provident Corp., a former Managing Director of Chrysalis Ventures, and former Chairman of the Board of Directors of Aegon USA Inc. He was first appointed to Aegon's Supervisory Board in 2004. His current and final term will end in 2016. Mr. Bailey is also a senior advisor to Chrysalis Ventures Inc. (not listed).

Robert Dineen (1949, American)

Member of the Audit Committee

Member of the Risk Committee

Robert Dineen was Vice Chairman of Lincoln Financial Network and a member of the Senior Management Committee of Lincoln Financial Group, before retiring in 2013. Before joining Lincoln Financial Group, Mr. Dineen was Senior Vice President and head of Merrill Lynch's Managed Asset Group. He was appointed to Aegon's Supervisory Board in May 2014, and his current term will end in 2018. He has no other board memberships.

Shemaya Levy (1947, French)

Chairman of the Risk Committee

[Member of the Nomination and Governance Committee](#)

Shemaya Levy is retired Executive Vice President and Chief Financial Officer of the Renault Group. He was appointed to Aegon's Supervisory Board in 2005 and his current and final term will end in 2017. He is also a Vice-Chairman of the Supervisory Board of TNT Express N.V. and member of the Board of Directors of PKC Group Oyj.

Ben J. Noteboom (1958, Dutch)

[Chairman of the Remuneration Committee](#)

[Member of the Audit Committee](#)

Ben J. Noteboom worked for Randstad Holding N.V. from 1993 until 2013, where he was appointed member of the Executive Committee in 2001, and became CEO in 2003. Before joining Randstad, Mr. Noteboom worked for Dow Chemical in several international management functions from 1984 until 1993. He started his career in 1982 at Zurel as a management assistant. Mr. Noteboom was appointed to Aegon's Supervisory Board in 2015, and his current term will end in 2019. He is also a member of the Supervisory Boards of Ahold N.V. and Wolters Kluwer N.V.

Ben van der Veer (1951, Dutch)

[Chairman of the Audit Committee](#)

[Member of the Nomination and Governance Committee](#)

Ben van der Veer is former Chairman of the Board of Management of KPMG N.V.. He was appointed to Aegon's Supervisory Board in 2008, and his current term will end in 2016. In addition, he is a member of the Supervisory Board of TomTom N.V. and a non-executive member of the Boards of RELX N.V., RELX PLC and RELX Group PLC. He is also a member of the Supervisory Board of Royal FrieslandCampina N.V. (not listed).

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[Dirk P.M. Verbeek \(1950, Dutch\)](#)

[Member of the Audit Committee](#)

[Member of the Risk Committee](#)

[Member of the Nomination and Governance Committee](#)

Dirk P.M. Verbeek is a former Executive Board member and Vice President Emeritus of Aon Group Inc.. Mr. Verbeek was appointed to Aegon's Supervisory Board in 2008, and his current term ends in 2016. He is also a member of the Supervisory Board of Aon Groep Nederland B.V. (not listed). Furthermore, he was advisor to the President and Chief Executive Officer of Aon Corporation, and is Chairman of the Benelux Advisory Board of Leonardo & Co. B.V. (not listed), member of the Advisory Boards of CVC Europe (not listed) and OVG Real Estate (not listed) and member of the INSEAD Dutch Council. Until December 2015 he was Chairman of the Supervisory Board of Robeco Groep N.V. (not listed).

[Corien M. Wortmann-Kool \(1959, Dutch\)](#)

[Member of the Risk Committee](#)

[Member of the Remuneration Committee](#)

Corien M. Wortmann-Kool was a Member of the European Parliament and Vice-President on Financial, Economic and Environmental affairs for the EPP Group (European People's Party). She was appointed to Aegon's Supervisory Board in May 2014, and her current term will end in 2018. Ms. Wortmann-Kool is Chairman of the Board of Stichting Pensioenfonds ABP (ABP), the Dutch public sector collective pension fund. She is also a member of the Supervisory Board of Het Kadaster, member of the Netherlands Central Bureau of Statistics (CBS) and member of the Supervisory Board of Save the Children Netherlands.

[Dona D. Young \(1954, American\)](#)

[Member of the Audit Committee](#)

[Member of the Risk Committee](#)

Dona Young is an executive/board consultant and retired Chairman, President and Chief Executive Officer of The Phoenix Companies, which was an insurance and asset management company during her tenure. She was appointed to Aegon's Supervisory Board in 2013, and her current term ends in 2017. Ms. Young is also member of the Board of Directors of Foot Locker, Inc. and a member of the Board of Trustees of Save the Children US (not listed). In 2015, Ms. Young was selected to the National Association of Corporate Directors' Directorship 100.

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Remuneration Report**Global Remuneration Principles**

The Aegon Group Global Remuneration Principles provide the foundation for remuneration policies and practices throughout Aegon. They are applied regionally and/or locally.

The key pillars of the Aegon Group Global Remuneration Principles are as follows:

- ❧ Aegon remuneration is employee-oriented by: fostering a sense of value and appreciation in each individual employee; promoting the short- and long-term interests and well-being of all Aegon staff via fair compensation, pension and/or other benefits; supporting employees' career development; and supporting the (international) mobility of its staff;
- ❧ Aegon remuneration is performance-related by: establishing a clear link between pay and performance by aligning objectives and target setting with performance evaluation and remuneration; reflecting individual as well as collective performance in line with Aegon's long-term interests; enhancing the transparency and simplicity of Aegon Group remuneration, consistent with the principle of pay for performance; avoiding any pay for non-performance;
- ❧ Aegon remuneration is fairness-driven by: promoting fairness and consistency in Aegon's remuneration policies and practices, with remuneration packages that are well-balanced across the different echelons within Aegon and its business units; avoiding any discrimination in Aegon's remuneration structures, including, among others, discrimination based on nationality, race, gender, religion, sexual orientation, and/or cultural beliefs; creating global alignment in the total compensation of all Identified Staff; aiming at controlled market competitive remuneration, by providing total compensation packages in line with an appropriately established peer group at a regional unit, country and/or functional level; and
- ❧ Aegon remuneration is risk-prudent by: aligning business objectives with risk management requirements in the target setting practices throughout the Aegon Group; giving an incentive to appropriate risk-taking behavior while discouraging the taking of excessive risks; protecting the risk alignment effects embedded in the remuneration arrangements of individual staff against any personal strategies or insurance to counter them.

The key pillars outlined above are set out in Aegon's Global Remuneration Framework (GRF). The GRF, which covers all Aegon staff, contains the guiding principles to support sound and effective remuneration policies and practices by ensuring consistency throughout the Aegon Group. The GRF is designed in accordance with relevant rules, guidelines and interpretations, for instance the Decree on Sound Remuneration Policy (Regeling beheerst beloningsbeleid (Rbb) Wft 2014) from DNB (the Dutch Central Bank), and the 2015 Act on the Remuneration Policy of

Financial Undertakings (Wet beloningsbeleid financiële ondernemingen, Wbfo 2015 stb 2015, 45).

Aegon's remuneration policies are derived from the GRF, among which is the Remuneration Policy for the Executive Board. These policies define specific terms and conditions for the employment of various groups of staff. In addition, all steps in the remuneration process, in addition to the involvement of Human Resources, Risk Management, Compliance and Audit, are governed by the GRF and its underlying policies.

Over the course of 2014, in anticipation of the Act on the Remuneration Policy of Financial Undertakings (which came into effect on February 7, 2015), Aegon aligned its GRF and related policies and practices to bring them into line with anticipated new regulations announced by the Dutch government. Among others, the legislation introduces caps on variable compensation that go beyond the maximums suggested by European legislation, and requires a minimum level of non-financial performance indicators for determining variable compensation as well as limitations to financial retention and severance arrangements. Aegon has been compliant with the Wbfo as of the official date that it came into force in the Netherlands. The maximum levels of variable compensation as defined by Wbfo were implemented for the majority of Aegon's organizations globally for the full performance year 2015 (similar regulations apply for Aegon Asset Management). The Wbfo has a provision that makes it possible to apply for a variable compensation maximum that is aligned with the European CRD IV compensation ratio (100% of fixed compensation at maximum level). This has been specifically created for all people working for the corporate office of companies with a strong international nature. In 2015, Aegon met the applicable criteria. Although the regular maximum levels of variable compensation apply in the Netherlands, Aegon has offered selected senior staff at its corporate office a maximum variable compensation opportunity in line with CRD IV remuneration ratios.

For compensation of staff outside Europe, the Company requested shareholder approval to pay a maximum of 200% of base salary as variable compensation for performance delivered by selected senior staff in positions that, based on local market practice, could exceed the 100% of base salary variable compensation set out in the legislation. The Company's capital is not adversely impacted by the maximum variable compensation that could be paid out.

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In line with the Wbfo, Aegon wishes to disclose the total amount of variable compensation paid in relation to performance year 2015. The total amount of variable compensation paid out in 2015 was EUR 204 million. In 2015, the total annual compensation paid out to 18 people was equal to or higher than EUR 1 million. These people worked for Aegon's Global Corporate Office, Aegon Americas, Asset Management and Aegon United Kingdom.

Role of Risk Management and Compliance

Variable compensation may have an impact on risk-taking behaviors and, as such, may undermine effective risk management. This can lead to excessive risk taking, which can have a material impact on the Company's financial soundness. To avoid such undesired effects, both the Risk Management and Compliance functions are involved in the design and execution of remuneration policies and practices.

The GRF includes separate remuneration policies for three specific groups of employees. This is in recognition of the fact that these employees' roles and responsibilities require specific risk mitigating measures and governance processes. These remuneration policies are for: (i) the Executive Board; (ii) material risk takers (Identified Staff¹); and (iii) Control Staff. Given the rationale for having a separate policy for material risk takers and the risk mitigating measures that are applied to the remuneration of these individuals, Risk Management is involved in deciding which positions are deemed Identified Staff. Furthermore, where exceptions to the policies are made to reflect local practices or regulations, Risk Management and Compliance are involved in order to ensure such exceptions do not undermine effective risk management and that sufficient mitigating measures are undertaken. Since 2011, in conjunction with Risk Management and Compliance, existing remuneration policies have been amended, including deferral and holding arrangements, payment in non-cash instruments, and specific ex-ante and ex-post measures.

In addition, the Risk Management and Compliance functions, together with the Human Resources and Finance functions, are responsible for the execution of the various ex-ante and ex-post measures that have been introduced by Aegon to ensure the GRF and associated practices are aligned with the defined risk tolerances and behaviors. In this respect, risk mitigating measures undertaken prior to the payout of compensation to individual employees (regardless of whether the compensation is deferred) are considered ex-ante measures. Retribution measures applied after payouts, or concerning allocated but deferred payments (before vesting of these payments) to ensure sustainability of performance, are considered ex-post measures.

Aegon endeavors to seek an appropriate balance of ex-ante and ex-post assessments to ensure effectiveness in both the short-and long-term risk taking behavior of employees.

General compensation practices

Aegon has a pay philosophy that is based on total compensation. This means that the aim is for total remuneration for experienced and competent employees to be consistent with compensation levels in the market in which Aegon operates and competes for employees. Total compensation typically consists of base salaries and where in line with local market practices variable compensation. Market survey information from reputable sources is used to provide information on competitive compensation levels and practices.

Variable compensation, if any, is capped at an appropriate level as a percentage of base pay. Variable compensation for senior management is usually paid out in cash and shares over multiple years, and is subject to further conditions being fulfilled. Additional holding periods may apply to shares after they have vested, restricting their sale for a further one to three years. Variable compensation already paid out may also be retrieved under certain circumstances (Claw-back).

More detailed information is provided in the following sections on the compensation practice for the Supervisory Board and Executive Board.

Supervisory Board Remuneration Policy 2015

Aegon's Remuneration Policy for members of its Supervisory Board is aimed at ensuring fair compensation, and protecting the independence of the Board's members. Terms and conditions for members of the Supervisory Board are part of Aegon's broader Remuneration Policy, and are the responsibility of the Company's Remuneration Committee.

Fees and entitlements

Members of the Supervisory Board are entitled to the following:

- ⌚ A base fee for membership of the Supervisory Board. No separate attendance fees are paid to members for attendance at the regular Supervisory Board meetings;
- ⌚ An attendance fee for each extra Board meeting attended, be it in person or by video and/or telephone conference;
- ⌚ A committee fee for members on each of the Supervisory Board's Committees;
- ⌚ An attendance fee for each Committee meeting attended, be it in person or through video and/or telephone conference; and
- ⌚ An additional fee for attending meetings that require intercontinental travel between the Supervisory Board member's home location and the meeting location.

1 In accordance with the Dutch Decree on Sound Remuneration Policy, the most recent annual disclosure of Identified Staff remuneration can be found on Aegon's corporate website:
<http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/>

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Each of these fees is a fixed amount. Members of Aegon's Supervisory Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the Company. These measures are designed to ensure the independence of Supervisory Board members and to strengthen the overall effectiveness of Aegon's corporate governance.

Under the current policy, approved by shareholders on May 15, 2013, members of the Supervisory Board are entitled to the following payments:

Base fee for membership of the Supervisory Board**EUR / year**

Chairman	80,000
Vice-Chairman	50,000
Member	40,000

Fee for membership of a Supervisory Board committee**EUR / year**

Chairman of the Audit Committee	13,000
Member of the Audit Committee	8,000
Chairman of other committees	10,000
Member of other committees	5,000

Attendance fees**EUR**

Extra Supervisory Board meeting	3,000
Audit Committee	3,000
Other committees	2,000

Information on members of the Supervisory Board and the composition of Aegon's four committees – Audit, Nomination and Governance, Remuneration and Risk – can be found on pages 98-104.

Supervisory Board Remuneration Report 2015

Members of Aegon's Supervisory Board received the following payments (in EUR) in 2015:

in EUR	2015	2014
Robert J. Routs	143,000	134,000
Irving W. Bailey, II	135,000	122,750
Robert W. Dineen (as of May 21, 2014)	121,000	70,125
Shemaya Levy	101,000	94,125
Ben. J. Noteboom (as of May 20, 2015)	69,250	-
Ben van der Veer	115,000	104,125
Dirk P.M. Verbeek	112,125	92,000
Corien M. Wortmann-Kool (as of May 21, 2014)	96,000	55,250
Dona D. Young	121,000	118,000
Total for active members	1,013,375	790,375
Antony Burgmans (up to April 1, 2014)	-	15,000
Kornelis J. Storm (up to May 21, 2014)	-	33,750
Leo M. van Wijk (up to May 20, 2015)	38,625	86,000
Total remuneration	1,052,000	925,125
VAT liable on Supervisory Board remuneration	220,920	194,276
Total	1,272,920	1,119,401

Not included in the table above is a premium for the mandatory health insurance paid on behalf of Dutch Supervisory Board members. Remuneration for Supervisory Board members is subject to Dutch VAT.

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Executive Board Remuneration Policy 2015

Executive Board remuneration

Aegon's Executive Board is remunerated on the basis of the principles described in Aegon's GRF. Aegon's remuneration policy for members of the Executive Board is derived from this framework and sets out terms and conditions for members of the Company's Executive Board.

The Executive Board Remuneration Policy was prepared in accordance with the Dutch Corporate Governance Code and the Decree on Sound Remuneration Policy (Regeling beheerst beloningsbeleid (Rbb) Wft 2011, which was succeeded by Rbb Wft 2014) produced by DNB. It was adopted at the General Meeting of Shareholders on May 12, 2011. The Policy will remain in force until such time as the Supervisory Board proposes changes or amendments. Any material changes in the Executive Board Remuneration Policy must also be referred to the General Meeting of Shareholders for adoption.

Role of the Remuneration Committee

The Remuneration Committee of Aegon's Supervisory Board has overall responsibility for the Company's Remuneration Policies, including the Executive Board Remuneration Policy. Members of the Committee are drawn from the Supervisory Board.

Each year, Aegon's Remuneration Committee reviews Aegon's remuneration policies to ensure they remain in line with prevailing international standards. This review is based partly on information provided by Aegon's external advisor, Towers Watson. The advisor does not, however, advise individual members of the Executive and Supervisory Boards.

The Remuneration Committee may recommend changes to the policies to the Supervisory Board. Any material changes in the Executive Board Remuneration Policy must also be referred to the General Meeting of Shareholders for adoption.

Review of the Remuneration Policy

Aegon's Executive Board Remuneration Policy is reviewed every year by the Remuneration Committee. The policy applies to all members of Aegon's Executive Board.

Ensuring pay remains competitive

The Company regularly compares its levels of executive remuneration with those of other comparable companies. Companies included in the peer group are chosen according to the following criteria:

- ⌚ Industry (preferably life insurance);
- ⌚ Size (companies with similar number of employees, assets, revenue and market capitalization);
- ⌚ Geographic scope (preferably the majority of revenues generated outside of the country of origin); and
- ⌚ Location (companies based in Europe).

The peer group was reviewed in 2015. Compared with the 2014 sample Allianz and Mapfre were added, and ING Group was replaced by NN Group. The 2015 peer group therefore comprised the following fourteen companies: Allianz, Aviva, Axa, CNP Assurances, Generali, Legal & General, Mapfre, Münchener Rückversicherung, NN Group, Old Mutual, Prudential plc., Standard Life, Swiss Re, and Zurich Financial Services.

In addition, in order to monitor alignment with the general industry in the Netherlands, a reference group was established, comprising the 12 leading companies listed on Euronext Amsterdam, excluding financial services providers. Going forward, the Supervisory Board will also regularly review the composition of these two groups to ensure that they continue to provide a reliable and suitable basis for comparison.

Total compensation

For each member of the Executive Board, Aegon's Supervisory Board determines a maximum total compensation, reflecting the specific roles and responsibilities of the individual. Each year, the Supervisory Board reviews total compensation levels to ensure they remain competitive and provide proper, risk-based incentives to members of Aegon's Executive Board. To ensure Executive Board members are compensated in accordance with the desired market positioning, alignment to the desired market position needs to be addressed over time, in accordance with applicable rules, regulations and codes.

Consistent with the Executive Board Remuneration Policy, the total direct compensation for Executive Board members consists of fixed compensation and variable compensation. In particular, the variable compensation (both expressed as opportunity and actual payout levels) for Executive Board members at Aegon is lower than at peer and other non-financial companies.

The Supervisory Board conducts regular scenario analyses to determine the long-term effect on the level and structure of compensation granted to members of the Executive Board. The Supervisory Board (Remuneration Committee) has discussed and endorsed the 2015 total compensation for the Executive Board.

Fixed compensation

It is the responsibility of the Supervisory Board to determine fixed compensation for members of the Executive Board based on their qualifications, experience and expertise.

Variable compensation

Aegon believes that variable compensation strengthens the commitment of Executive Board members to the Company's objectives, business strategy, risk tolerance and long-term performance. Variable compensation is based on a number of individual and company performance indicators that are regularly evaluated by experts in the Company's Finance, Risk Management, Business Control, Audit, Human Resources and Compliance departments.

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This performance is determined using a mix of financial and non-financial indicators. Aegon believes these indicators provide an accurate and reliable reflection of both company and individual performance. The type of performance indicators are selected in accordance with the long-term goals of the Company. The level of the indicators should be challenging but achievable. The targets and levels are agreed by the Supervisory Board. Performance is assessed by Aegon's Remuneration Committee and validated by the full Supervisory Board.

For 2015, the performance period for variable compensation was one year. By implementing deferral and additional holding periods, Aegon believes that the long-term interests of Executive Board members are aligned with the interests of Aegon and its stakeholders.

Variable compensation, comprising both cash and shares, is conditionally granted at the beginning of each performance period. The number of conditionally granted shares is calculated using the value of one Aegon share at the beginning of this period. This value is equal to the average price on the Euronext Amsterdam stock exchange for the period December 15 to January 15. After the performance year, the Company assesses the realized performance against the performance indicators and compares the minimum, target and maximum levels of the performance indicators with the realized performance. The

amount of conditional variable compensation that can be allocated is then established. Variable compensation is allocated once the accounts for the financial year in question have been adopted by the Company's shareholders and after an ex-ante assessment.

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

The deferred parts vest in equal tranches over a three-year period. After an ex-post assessment, which may lower the vesting parts, these individual parts are paid 50% in cash and 50% in shares. The shares are restricted for a further period of three years (with the exception of shares sold to meet income tax obligations).

The variable compensation payout can be illustrated by the following example and the table below. For every 1,000 variable compensation that is allocated following the performance period, 400 is paid out/vested in the year following that performance year (N in the following table). This part will be paid 50% in cash (=200) and 50% in shares vesting immediately ($=200 / 6.106^1 = 32$ shares). The remaining 600 is deferred and vests according to a pre-defined schedule.

Information on the expenses recognized for variable compensation and the status of awards are provided in note 53 of this report.

Variable compensation 2015

Variable compensation is initially granted based on performance, as measured against Aegon group targets and personal

objectives. These objectives represent a mix of financial and non-financial measures, providing an accurate and reliable reflection of corporate and individual performance. The mix of group measures versus personal performance measures is 60%-40%.

¹ Based on VWAP December 15, 2014 – January 15, 2015.

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Objectives	Maximum % of variable compensation		Performance indicator
			Group underlying earnings after tax, return on equity
Group financial IFRS based	21%	Group market consistent value of new business	Operational free cash flow
Group financial risk adjusted based	27%	Group pre-tax return on required capital	
Group sustainability	12%	Objective measuring corporate responsibility and strategy	
		Individual basket of strategic and personal objectives related to	
Personal objectives	40%	Aegon's strategy	

Each year a one-year target is set for each performance indicator.

At an aggregated level, payments¹ are made as follows:

- ⌚ 50% of base salary if the threshold target is reached. This results in the allocation of EUR 288,518 and 47,252 shares for Mr Wynaendts and EUR 247,748 and 40,943 shares for Mr Button;
- ⌚ 80% of base salary if the pre-determined performance targets are met. This results in the allocation of EUR 461,628 and 75,602 shares for Mr Wynaendts and EUR 396,396 and 59,693 shares for Mr Button;
- ⌚ Up to 100% of base salary if the targets are exceeded. This results in the allocation of EUR 577,036 and 94,503 shares for Mr Wynaendts and EUR 495,496 and 74,617 shares for Mr Button.

If at an aggregated level the threshold target is not reached, no variable compensation related to the performance period will be made available.

Risk adjustment methodology (ex-ante)

At the end of the performance period, but prior to allocation of variable compensation, the Supervisory Board assesses whether (downward) modifications are needed. For this purpose, quantitative and qualitative measures at group, regional unit and individual level are taken into account, such as:

- ⌚ Breaches of laws and regulations;
- ⌚ Breaches of internal risk policies (including compliance);

- ⌚ Significant deficiencies or material weaknesses relating to the Sarbanes-Oxley Act; and
- ⌚ Reputation damage due to risk events.

Ex-post assessment and discretionary adjustments

The Supervisory Board uses its judgment in the assessment of the outcome of strategic/personal targets to ensure that, taken together, they represent a fair reflection of the overall performance of the Board member over the performance period.

In addition, the Supervisory Board applies an ex-post risk assessment to deferred payouts of variable compensation to determine whether allocated (that is, unvested) variable compensation should become unconditional (meaning it vests) or should be adjusted. This ex-post assessment is based on informed judgment by the Supervisory Board, taking into account significant and exceptional circumstances that are not (sufficiently) reflected in the initially applied performance indicators.

Implementation of this authority is on the basis of criteria such as:

- ⌚ The outcome of a re-assessment of the performance against the original financial performance indicators;
- ⌚ A significant downturn in the Company's financial performance;
- ⌚ Evidence of misbehavior or serious error by the participant;
- ⌚ Significant failure in risk management; and
- ⌚ Significant changes in the Company's economic or regulatory capital base.

The Supervisory Board asks the Remuneration Committee to review these criteria in detail prior to each vesting and to document its findings. Based on this analysis, the Committee may then put forward a proposal to the Supervisory Board to adjust unvested variable compensation. Deferred variable compensation may only be adjusted downwards. Ex-post, risk-based assessments concern deferred variable compensation, not fixed compensation.

Circuit breaker

For each performance indicator, variable compensation is only paid if the threshold level set for that performance indicator is reached.

Claw-back provision

Where variable compensation is based on incorrect data (including non-achievement of performance indicators in hindsight), or in the event of material financial restatements or individual gross misconduct, Aegon's Supervisory Board has the right to claim back variable compensation that has already been paid out or vested.

Pension arrangements

Members of Aegon's Executive Board are offered pension arrangements and retirement benefits. Benefits offered are consistent with Executive Board members' agreements.

¹ Mr Button earned an annual salary in USD. Amounts are based on USD, converted to EUR, based on annual average exchange rates.

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Loans

Aegon does not grant Executive Board members personal loans, guarantees or other such arrangements, unless in the normal course of business and on terms applicable to all employees, and only with the approval of the Company's Supervisory Board.

Terms of Engagement Agreement

Members of the Executive Board are appointed for four years, and may then be re-appointed for successive mandates also for a period of four years.

Both Executive Board members have an Engagement Agreement with Aegon N.V., rather than a contract of employment. Mr Button continues to be employed by Transamerica Life Insurance while he is seconded on an expatriate assignment to the Netherlands.

Members of the Executive Board may terminate their engagement agreement with a notice period of three months. The Company must give six months' notice if it wishes to terminate the agreement of a member of its Executive Board.

The arrangements with current members of the Executive Board contain provisions for severance payments in the event that their agreement is terminated as a result of a merger or takeover. The Supervisory Board has taken appropriate steps to ensure the arrangements of members of the Executive Board are in line with the Executive Board Remuneration Policy.

Executive Board Remuneration Report

At the end of December 2015, Aegon's Executive Board had two members:

- Alexander R. Wynaendts, Chief Executive Officer and Chairman of the Executive Board. Mr. Wynaendts was appointed as a member of the Executive Board in 2003 for four years, and re-appointed in 2007 and 2011. At the General Meeting of Shareholders in 2015, Mr. Wynaendts was re-appointed for an additional four years.
- Darryl D. Button, Chief Financial Officer and member of the Executive Board, was appointed as a member of the Executive Board for four years at the Annual General Meeting of shareholders on May 15, 2013.

Fixed compensation

The fixed compensation of Mr. Button was increased in 2015 to USD 1.1 million (EUR 0.991 million) to further align his compensation towards the desired market position. The fixed compensation of Aegon's CEO remained unchanged in 2015 at EUR 1.154 million.

Conditional variable compensation awards 2015

Subject to the adoption of the annual accounts at the General Meeting of Shareholders on May 20, 2016, variable compensation for Executive Board members is set in cash and shares, based on both their individual and the

Company's performance. Targets for the performance indicators have been set in line with the agreed variable compensation targets and 2015 company budgets.

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Performance as reported on the financial and non-financial Group performance indicators and targets resulted in a performance score of 44.90 % (maximum 60%). However, after incorporating model validation updates and assumption changes for the 2015 financial performance of the Group for the Executive Board members, the pay-out on the financial and non-financial Group performance indicators and targets was reduced to 41.94% (maximum 60%). The performance on personal objectives resulted in a pay-out of 38.00% and 37.20% for Mr Wynaendts and Mr Button respectively (maximum 40%).

Over the performance year 2015, Mr. Wynaendts was awarded EUR 922,611 in total conditional variable compensation. Mr. Button was awarded EUR 784,310.

Forty percent of variable compensation related to performance year 2015 is payable in 2016. This is split 50/50 in a cash payment and in an allocation of shares.

In 2016, Mr. Wynaendts and Mr. Button are eligible to receive a cash payment of EUR 184,522 and EUR 156,862 respectively.

The number of shares to be made available in 2016 is 30,219 for Mr. Wynaendts and 23,621 for Mr. Button. With regard to vested shares (with the exception of shares sold to meet income tax obligations), a retention (holding) period of a further three years is applicable before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2015 (60% of the total, which for Mr. Wynaendts equates to EUR 276,783 and 45,330 shares, and for Mr. Button equates to EUR 235,292 and 35,433 shares) is to be paid out in future years, subject to ex-post assessments, which may result in downward adjustments and be subject to meeting additional conditions. In each of the years 2017, 2018 and 2019, 20% of the total variable compensation may be made available. Any payout is split 50/50 in a cash payment and an allocation of shares (vesting). After vesting (with the exception of shares sold to meet income tax obligations), a retention (holding) period is applicable for a further three years, before shares are at the disposal of the Executive Board members.

[Impact of ex-ante and ex-post assessment on attribution of variable compensation](#)

No variable compensation from previous performance years payable in 2015 has been adjusted downwards in 2015.

No circumstances have been identified to lower payout of the deferred payment from prior performance years that vest in 2016 (the so called ex-post assessment) or to lower the payout of the up-front payment of the 2015 performance year variable compensation that vests in 2016 (the so called ex-ante assessment).

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Corporate governance

Aegon is incorporated and based in the Netherlands. As a company established in the Netherlands, Aegon must comply with Dutch law and is subject to the Dutch Corporate Governance Code.

The shareholders**Listing and shareholder base**

Aegon's common shares are listed on Euronext Amsterdam and the New York Stock Exchange. Aegon has institutional and retail shareholders around the world. More than three-quarters of shareholders are located in Aegon's three main markets, the Netherlands, United States and the United Kingdom. Aegon's largest shareholder is Vereniging Aegon, a Dutch association with a special purpose to protect the broader interests of the Company and its stakeholders.

General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year and, if deemed necessary, the Supervisory or Executive Board of the Company has the authority to convene an Extraordinary General Meeting of Shareholders. The main function of the General Meeting of Shareholders is to decide matters such as the adoption of annual accounts, the approval of dividend payments and (re)appointments to the Supervisory Board and Executive Board of Aegon.

Convocation

Meetings are convened by public notice at least 42 days before the meeting. The convocation states the time and location of the meeting, the record date, the agenda items, and the procedures for admittance to the meeting and representation at the meeting by means of a written proxy. Those shareholders who alone or jointly represent at least 1% of Aegon's issued capital or a block of shares worth at least EUR 100 million may request items be added to the agenda of a General Meeting of Shareholders. In accordance with Aegon's Articles of Association, such a request will be granted if it is received in writing at least 60 days before the meeting, and if there are no important interests of the Company that dictate otherwise.

Record date

The record date is used to determine shareholders' entitlements with regard to their participation and voting rights. In accordance with Dutch law, the record date is 28 days before the day of the General Meeting of Shareholders.

Attendance

Every shareholder is entitled to attend the General Meeting to speak and vote, either in person or by proxy granted in writing. This includes proxies submitted electronically. All shareholders wishing to take part must provide proof of their identity and shareholding, and must notify the Company ahead of time of

their intention to attend the meeting. Aegon also solicits proxies from New York registry shareholders in line with common practice in the United States.

Voting at the General Meeting

At the General Meeting, each common share carries one vote. In the absence of a Special Cause, Vereniging Aegon casts one vote for every 40 common shares B it holds.

Supervisory Board

Aegon's Supervisory Board oversees the management of the Executive Board, in addition to the Company's business and corporate strategy. The Supervisory Board must take into account the interests of all Aegon stakeholders. The Supervisory Board operates according to the principles of collective responsibility and accountability.

Composition of the Supervisory Board

Members of the Supervisory Board are appointed by the General Meeting of Shareholders, following nomination by the Supervisory Board itself. Aegon aims to ensure that the composition of the Company's Supervisory Board is well balanced in terms of professional background, geography and gender. A profile exists, outlining the required qualifications of its members. Supervisory Board members are no longer eligible for appointment after the age of 70, unless the Supervisory Board decides to make an exception. Remuneration of the Supervisory Board members is determined by the General Meeting of Shareholders. At present, Aegon's Supervisory Board consists of nine non-executive members.

Committees

The Supervisory Board also oversees the activities of several of its committees. These committees are composed exclusively of Supervisory Board members and deal with specific issues related to Aegon's financial accounts, risk management strategy, executive remuneration and appointments. These committees are the:

- ⌚ Audit Committee;
- ⌚ Risk Committee;
- ⌚ Remuneration Committee; and
- ⌚ Nomination and Governance Committee.

Executive Board

Aegon's Executive Board is charged with the overall management of the Company and is therefore responsible for achieving Aegon's aims and developing the strategy and its associated risk profile, in addition to overseeing any relevant sustainability issues

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and the development of the Company's earnings. Each member has duties related to his or her specific area of expertise.

Aegon's Articles of Association determine that for certain decisions the Executive Board must seek prior approval from the Supervisory Board and/or the approval of the General Meeting of Shareholders. In addition, the Supervisory Board may also subject other Executive Board decisions to its prior approval.

Composition of the Executive Board

The Executive Board of Aegon has two members: Alex Wynaendts, who is Chief Executive Officer (CEO) and Chairman of the Executive Board, and Darryl Button, who is Aegon's Chief Financial Officer (CFO) and member of the Executive Board.

The number of Executive Board members and their terms of employment are determined by the Company's Supervisory Board. Executive Board members are appointed by the General Meeting of Shareholders, following nomination by the Supervisory Board.

The members of the Executive Board have an engagement agreement with the company rather than an employment contract. The Company's Remuneration Policy for the Executive Board limits exit arrangements to a maximum of one year of salary.

Management Board

Aegon's Executive Board is assisted in its work by the Company's Management Board, which has seven members, including the members of the Executive Board. Aegon's Management Board is composed of Alex Wynaendts, Darryl Button, Adrian Grace, Tom Grondin (who was succeeded by Allegra van Hövell-Patrizi on January 1, 2016), Marco Keim, Gábor Kepecs and Mark Mullin.

Capital, significant shareholders and exercise of control

As a publicly-listed company, Aegon is required to provide the following detailed information regarding any structures or measures that may hinder or prevent a third party from acquiring the Company or exercising effective control over it.

The capital of the Company

Aegon has authorized capital of EUR 1,080 million, divided into 6 billion common shares and 3 billion common shares B, each with a par value of EUR 0.12. As of December, 31 2015, a total of 2,147,036,826 common shares and 585,022,160 common shares B had been issued.

Depository receipts for Aegon shares are not issued with the Company's cooperation.

Each common share carries one vote. There are no restrictions on the exercise of voting rights by holders of common shares, be it regarding the number of votes or the time period in which they may be exercised.

All common shares B are held by Vereniging Aegon, the Company's largest shareholder. The nominal value of the common shares B is equal to the nominal par value of a common share. This means that common shares B also carry one vote per share. However, the voting rights attached to common shares B are subject to restrictions as laid down in the Voting Rights Agreement, under which Vereniging Aegon may cast one vote for every 40 common shares B it holds in the absence of a Special Cause.

The financial rights attached to a common share B are one-fortieth (1/40th) of the financial rights attached to a common share. The rights attached to the shares of both classes are otherwise identical. For the purpose of the issuance of shares, reduction of issued capital and the transfer of common shares B, the value or the price of a common share B is determined as one-fortieth (1/40th) of the value of a common share. For such purposes, no account is taken of the difference between common shares and common shares B in terms of the proportion between financial rights and voting rights.

Significant shareholdings

On December 31, 2015, Vereniging Aegon, Aegon's largest shareholder, held a total of 292,687,444 common shares and 585,022,160 common shares B.

Under the terms of the 1983 Merger Agreement as amended in May 2013, Vereniging Aegon has the option to acquire additional common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake to 32.6% of the voting rights, irrespective of the circumstances that caused the total shareholding to be or become lower than 32.6%.

To Aegon's knowledge based on the filings made with the Netherlands Authority for Financial Markets, the AFM, the US based investment management firm Dodge & Cox holds a capital and voting interest in Aegon of 3%. Based on its last filing with the Dutch Autoriteit Financiële Markten on July 1, 2013 the Dodge & Cox International Stock Fund stated to hold 83,320,454 common shares and voting rights which represents 3.0% of the capital issued as at December 31, 2015. On February 12, 2016, Dodge & Cox's filing with the US Securities and Exchange Commission (SEC) shows that Dodge & Cox holds 252,801,195 common shares, representing 9.3% of the issued capital, and has voting rights for 246,721,656 shares, representing 9.0% of the votes as at December 31, 2015. The SEC filing also shows that of this number of shares Dodge & Cox International Stock Fund holds 130,337,763 common shares, which represents 4.8% of the issued capital as at December 31, 2015. The remainder of the common shares registered in name of Dodge & Cox with the SEC are held by Dodge & Cox on behalf of its other clients, including investment companies registered under the Investment Company Act of 1940 and other managed accounts. The filing of Franklin Resources, Inc. (FRI), a US-based investment management firm, with the SEC on February 3, 2016,

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shows that FRI holds 135,002,163 common shares, representing 4.9% of the issued capital as at December 31, 2015. The SEC filing also shows that the common shares are held by various entities to whom they provide asset management services. Each of these entities hold less than 3% of the issued capital as at December 31, 2015.

Special control rights

As a matter of Dutch corporate law, the common shares and the common shares B offer equal full voting rights, as they have equal nominal value (EUR 0.12). The Voting Rights Agreement entered into between Vereniging Aegon and Aegon provides that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon is not allowed to exercise more votes than is proportionate to the financial rights represented by its shares. This means that in the absence of a Special Cause, Vereniging Aegon may cast one vote for every common share it holds and one vote only for every 40 common shares B it holds. In the event of a Special Cause, Vereniging Aegon may cast one vote for every common share and one vote for every common share B. A Special Cause may include:

- ⌚ The acquisition by a third party of an interest in Aegon N.V. amounting to 15% or more;
- ⌚ A tender offer for Aegon N.V. shares; or
- ⌚ A proposed business combination by any person or group of persons, whether acting individually or as a group, other than in a transaction approved by the Company's Executive and Supervisory Boards.

If Vereniging Aegon, acting at its sole discretion, determines that a Special Cause has arisen, it must notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on its common shares B for a period limited to six months. Vereniging Aegon would, for that limited period, command 32.6% of the votes at a General Meeting of Shareholders.

Issue and repurchase of shares

New shares may be issued up to the maximum of the Company's authorized capital, following a resolution adopted by the General Meeting of Shareholders. Shares may also be issued following a resolution of the Executive Board, providing, and to the extent that, the Board has been authorized to do so by the General Meeting of Shareholders. A resolution authorizing the Executive Board to issue new shares is usually presented at Aegon's Annual General Meeting of Shareholders.

Aegon is entitled to acquire its own fully paid-up shares, providing it acts within existing statutory restrictions. Shareholders usually authorize the Executive Board to purchase the Company's shares under terms and conditions determined by the General Meeting.

Transfer of shares

There are no restrictions on the transfer of common shares. Common shares B can only be transferred with the prior approval of Aegon's Supervisory Board.

Aegon has no knowledge of any agreement between shareholders that might restrict the transfer of shares or the voting rights pertaining to them.

Significant agreements and potential change of control

Aegon is not party to any significant agreements that would take effect, alter or terminate as a result of a change of control following a public offer for the outstanding shares of the Company, other than those customary in financial markets (for example, financial arrangements, loans and joint venture agreements).

Share plan

Senior executives at Aegon companies and some other employees are entitled to variable compensation of which part is granted in the form of shares. For further details, please see the remuneration-report on page 105 and note 53 of the notes to Aegon's consolidated financial statements of this Annual Report. Under the terms of existing share plans the vesting of granted rights is predefined. The shares shall vest as soon as possible in accordance with payroll requirements of a subsidiary after the adoption of the Company's Annual Report at the Annual General Meetings of Shareholders in the year of vesting of these shares.

Appointing, suspending or dismissing Board members

The General Meeting of Shareholders appoints members of both the Supervisory and Executive Boards, following nominations by the Supervisory Board. These nominations are binding providing at least two candidates are nominated. The General Meeting of Shareholders may cancel the binding nature of these nominations with a majority of two-thirds of votes cast, representing at least one half of Aegon's issued capital. The General Meeting may, in addition, bring forward a resolution to appoint someone not nominated by the Supervisory Board. Such a resolution also requires a two-thirds majority of votes cast, representing at least one half of Aegon's issued capital.

Members of Aegon's Supervisory and Executive Boards may be suspended or dismissed by the General Meeting of Shareholders with a two-thirds majority of votes cast, representing at least one half of Aegon's issued capital, unless the suspension or dismissal has first been proposed by the Company's Supervisory Board. A member of the Executive Board may also be suspended by the Supervisory Board, although the General Meeting of Shareholders has the power to annul this suspension.

Amending the Articles of Association

The General Meeting of Shareholders may, with an absolute majority of votes cast, pass a resolution to amend Aegon's Articles of Association or to dissolve the Company, in accordance with a proposal made by the Executive Board and approved by the Supervisory Board.

Table of Contents**116 Governance Corporate governance****Dutch Corporate Governance Code**

As a company based in the Netherlands, Aegon adheres to the Dutch Corporate Governance Code and supports its principles for sound and responsible corporate governance. Aegon regards the Code as an effective means to help ensure that the interests of all stakeholders are duly represented and taken into account. The most recent version of the Code came into force on January 1, 2009. It is the responsibility of both the Supervisory Board and the Executive Board to oversee Aegon's overall corporate governance structure. Any substantial change to this structure is submitted to the General Meeting of Shareholders for discussion.

In general, Aegon applies the best practice provisions set out in the Code and a detailed explanation is given below for those instances where Aegon does not fully apply the best practice provisions of the Code. In these few instances, Aegon adheres, as much as is possible, to the spirit of the Code.

Code II.3.3

The Dutch Corporate Governance Code recommends that a member of the Executive Board should not take part in discussions or decision-making related to a subject or transaction in which he or she has a conflict of interest.

Aegon's position on Code II.3.3

In line with Dutch law, members of the Executive Board do not take part in discussions or decision-making related to a subject or transaction in which he or she has a personal conflict of interest. That notwithstanding, Aegon's CEO and CFO are also members of the Executive Committee of the Company's largest shareholder, Vereniging Aegon. While this may be construed as a business-related conflict of interest, under Vereniging Aegon's Articles of Association, Aegon's CEO and CFO are specifically excluded from voting on issues directly related to Aegon or their position within it. Aegon's Supervisory Board holds the view that, given the historic relationship between Aegon and Vereniging Aegon, it is not in the Company's best interests to prevent Aegon's CEO and CFO from participating in discussions and decision-making related to Vereniging Aegon. For this reason, a protocol authorizes the CEO and CFO to continue their activities regarding Vereniging Aegon. The text of this protocol is available on Aegon's website, aegon.com.

Code IV.1.1

The Dutch Corporate Governance Code states that the General Meeting of Shareholders may cancel the binding nature of nominations for the appointment of members to the Executive and Supervisory Boards with an absolute majority of votes and a limited quorum.

Aegon's position on Code IV.1.1

Aegon's Articles of Association provide for a larger majority and a higher quorum than those advocated by the Code. Given that the Company has no specific anti-takeover measures, the current system is deemed appropriate within the context of the 1983 Merger Agreement under which Aegon was formed. However, to mitigate any possible negative effects stemming from this, the Supervisory Board has decided that, in the absence of any hostile action, it will only make nominations for the appointment of members to the Executive and Supervisory Boards that are non-binding in

nature.

Corporate Governance Statement

For an extensive review of Aegon's compliance with the Dutch Corporate Governance Code, please refer to the Corporate Governance Statement on Aegon's corporate website.

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Differences between Dutch and US company laws

Dutch company law is different from US law in the following respects: Aegon, like most large Dutch public companies, has a two-tier governance system comprising an Executive Board and a Supervisory Board. The Executive Board is the executive body. Its members are not Aegon employees and have an engagement agreement with the Company. Members of the Executive Board are appointed and dismissed by the General Meeting of Shareholders, as inside directors are in the United States. The Remuneration Policy as regards the members of the Executive Board is adopted by the General Meeting of Shareholders. The number of the Executive Board members and the terms of their engagement are determined by the Supervisory Board within the scope of the adopted Remuneration Policy.

The Supervisory Board performs supervisory and advisory functions only, and its members are outsiders that are not employed by the Company. The Supervisory Board has the duty to supervise the performance of the Executive Board, the Company's general course of affairs and the business connected with it. The Supervisory Board also assists the Executive Board by giving advice. Other powers of the Supervisory Board include the prior approval of certain important resolutions of the Executive Board. Members of the Supervisory Board are appointed for a four-year term and may be dismissed by the General Meeting of Shareholders. The remuneration of Supervisory Board members is fixed by the General Meeting of Shareholders. Resolutions entailing a significant change in the identity or character of the Company or its business require the approval of the General Meeting of Shareholders.

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118 Governance **Code of ethics**

Code of ethics

Aegon has in place a code of ethics, titled the Code of Conduct, which contains Aegon's ethical principles in relation to various subjects. This Code of Conduct applies to all directors, officers (regardless of the contractual basis of their employment) and the employees of all Aegon companies. This includes members of the Executive Board, the Management Board and the Supervisory Board of Aegon N.V. as well as other executive and non-executive or supervisory directors of Aegon companies.

The current version of the Code of Conduct came into force in 2012 and gives a clearer commitment to a customer-centric approach. No waivers were granted in respect of the Code of Conduct, which is posted on aegon.com.

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Controls and procedures**Disclosure controls and procedures**

At the end of the period covered by this Annual Report, Aegon's management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of Aegon's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, Aegon's CEO and CFO concluded that, as of December 31, 2015, the disclosure controls and procedures were effective. There have been no material changes in the Company's internal controls or in other factors that could significantly affect internal controls over financial reporting subsequent to the end of the period covered by this Annual Report.

Due to the listing of Aegon shares on the New York Stock Exchange, Aegon is required to comply with the US Securities and Exchange Commission regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, or SOX 404. These regulations require that Aegon's CEO (the Chairman of the Executive Board) and CFO report on and certify the effectiveness of Aegon's internal controls over financial reporting on an annual basis. Furthermore, external auditors are required to provide an opinion on the effectiveness of Aegon's internal controls over financial reporting. The SOX 404 statement by the Executive Board is stated below, followed by the report of the external auditor.

Management's Annual Report on internal control over financial reporting

The directors and management of Aegon are responsible for establishing and maintaining adequate internal control over financial reporting. Aegon's internal control over financial reporting is a process designed under the supervision of Aegon's principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its published financial statements. Internal control over financial reporting includes policies and procedures that:

- ❧ Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- ❧ Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with the generally accepted accounting principles;
- ❧ Provide reasonable assurance that receipts and expenditures are made only in accordance with the authorizations of management and directors of the Company; and
- ❧ Provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on Aegon's financial statements would be prevented or detected in a timely manner.

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

Management assessed the effectiveness of Aegon's internal control over financial reporting as of December 31, 2015.

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In making its assessment management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013 framework).

Based on the assessment, management concluded that, in all material aspects, the internal control over financial reporting was effective as of December 31, 2015. They have reviewed the results of its work with the Audit Committee of the Supervisory Board.

The effectiveness of internal control over financial reporting as of December 31, 2015, was audited by PricewaterhouseCoopers Accountants N.V., an independent registered public accounting firm, as stated in their auditor's report on the Annual Report on Form 20-F on page 316.

The Hague, the Netherlands, March 25, 2016

The Executive Board of Aegon N.V.

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	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.0863	0.7370	1.5090	7.0540	27.0220	316.0051	4.2897	4.5215	3.1707	26.10
USD	0.9206	-	0.6784	1.3891	6.4936	24.8753	290.9004	3.9489	4.1623	2.9188	24.00
GBP	1.3569	1.4739	-	2.0475	9.5712	36.6649	428.7722	5.8205	6.1350	4.3022	35.40
CAD	0.6627	0.7199	0.4884	-	4.6746	17.9072	209.4136	2.8427	2.9964	2.1012	17.20
CNY	0.1418	0.1540	0.1045	0.2139	-	3.8307	44.7980	0.6081	0.6410	0.4495	3.70
CZK	3.7007	4.0201	2.7274	5.5843	26.1047	-	1,169.4364	15.8748	16.7327	11.7338	96.50
HUF	0.3165	0.3438	0.2332	0.4775	2.2322	8.5511	-	1.3575	1.4308	1.0034	8.20
PLN	0.2331	0.2532	0.1718	0.3518	1.6444	6.2993	73.6660	-	1.0540	0.7391	6.00
RON	0.2212	0.2403	0.1630	0.3337	1.5601	5.9763	69.8894	0.9487	-	0.7012	5.70
TRY	0.3154	0.3426	0.2324	0.4759	2.2247	8.5224	99.6641	1.3529	1.4260	-	8.20
UAH	0.0383	0.0416	0.0282	0.0578	0.2703	1.0353	12.1067	0.1643	0.1732	0.1215	-

Exchange rates at December 31, 2014

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.2101	0.7760	1.4015	7.5072	27.7150	315.7500	4.2981	4.4837	2.8288	19.1412
USD	0.826	-	0.641	1.158	6.204	22.903	260.929	3.552	3.705	2.338	15.818
GBP	1.289	1.559	-	1.806	9.674	35.715	406.894	5.539	5.778	3.645	24.666
CAD	0.714	0.863	0.554	-	5.357	19.775	225.294	3.067	3.199	2.018	13.658
CNY	0.133	0.161	0.103	0.187	-	3.692	42.060	0.573	0.597	0.377	2.550
CZK	3.608	4.366	2.800	5.057	27.087	-	1,139.275	15.508	16.178	10.207	69.064
HUF	0.317	0.383	0.246	0.444	2.378	8.778	-	1.361	1.420	0.896	6.062
PLN	0.233	0.282	0.181	0.326	1.747	6.448	73.463	-	1.043	0.658	4.453
RON	0.223	0.270	0.173	0.313	1.674	6.181	70.422	0.959	-	0.631	4.269
TRY	0.354	0.428	0.274	0.495	2.654	9.797	111.620	1.519	1.585	-	6.767
UAH	0.052	0.063	0.041	0.073	0.392	1.448	16.496	0.225	0.234	0.148	-

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Weighted average exchange rates 2015

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.1100	0.7256	1.4173	6.9598	27.2662	309.3147	4.1819	4.4428	3.0206	24.14
USD	0.9009	-	0.6537	1.2768	6.2701	24.5641	278.6619	3.7675	4.0025	2.7213	21.74
GBP	1.3782	1.5298	-	1.9533	9.5918	37.5775	426.2882	5.7634	6.1229	4.1629	33.27
CAD	0.7056	0.7832	0.5120	-	4.9106	19.2381	218.2422	2.9506	3.1347	2.1312	17.03
CNY	0.1437	0.1595	0.1043	0.2036	-	3.9177	44.4430	0.6009	0.6384	0.4340	3.46
CZK	3.6675	4.0710	2.6612	5.1980	25.5254	-	1,134.4254	15.3373	16.2942	11.0782	88.53
HUF	0.3233	0.3589	0.2346	0.4582	2.2501	8.8150	-	1.3520	1.4363	0.9765	7.80
PLN	0.2391	0.2654	0.1735	0.3389	1.6643	6.5201	73.9651	-	1.0624	0.7223	5.77
RON	0.2251	0.2498	0.1633	0.3190	1.5665	6.1372	69.6216	0.9413	-	0.6799	5.43
TRY	0.3311	0.3675	0.2402	0.4692	2.3041	9.0267	102.4017	1.3845	1.4708	-	7.99
UAH	0.0414	0.0460	0.0301	0.0587	0.2883	1.1294	12.8126	0.1732	0.1840	0.1251	

Weighted average exchange rates 2014

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.3288	0.8061	1.4667	8.1902	27.5153	308.3758	4.1839	4.4429	2.9060	15.81
USD	0.753	-	0.607	1.104	6.164	20.707	232.071	3.149	3.344	2.187	11.8
GBP	1.241	1.648	-	1.820	10.160	34.134	382.553	5.190	5.512	3.605	19.6
CAD	0.682	0.906	0.550	-	5.584	18.760	210.251	2.853	3.029	1.981	10.7
CNY	0.122	0.162	0.098	0.179	-	3.360	37.652	0.511	0.542	0.355	1.9
CZK	3.634	4.829	2.930	5.330	29.766	-	1,120.743	15.206	16.147	10.561	57.4
HUF	0.324	0.431	0.261	0.476	2.656	8.923	-	1.357	1.441	0.942	5.1
PLN	0.239	0.318	0.193	0.351	1.958	6.576	73.705	-	1.062	0.695	3.7
RON	0.225	0.299	0.181	0.330	1.843	6.193	69.409	0.942	-	0.654	3.5
TRY	0.344	0.457	0.277	0.505	2.818	9.468	106.117	1.440	1.529	-	5.4
UAH	0.063	0.084	0.051	0.093	0.518	1.740	19.503	0.265	0.281	0.184	

Weighted average exchange rates 2013

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.3272	0.8484	1.3674	8.1637	25.9238	296.3309	4.1940	4.4167	2.5305	10.8249
USD	0.753	-	0.639	1.030	6.151	19.533	223.275	3.160	3.328	1.907	8.156
GBP	1.179	1.564	-	1.612	9.622	30.556	349.282	4.943	5.206	2.983	12.759
CAD	0.731	0.971	0.620	-	5.970	18.958	216.711	3.067	3.230	1.851	7.916
CNY	0.122	0.163	0.104	0.167	-	3.175	36.299	0.514	0.541	0.310	1.326
100 CZK	3.857	5.120	3.273	5.275	31.491	-	1,143.084	16.178	17.037	9.761	41.757
100 HUF	0.337	0.448	0.286	0.461	2.755	8.748	-	1.415	1.490	0.854	3.653

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PLN	0.238	0.316	0.202	0.326	1.947	6.181	70.656	-	1.053	0.603	2.581
RON	0.226	0.300	0.192	0.310	1.848	5.869	67.093	0.950	-	0.573	2.451
TRY	0.395	0.524	0.335	0.540	3.226	10.245	117.104	1.657	1.745	-	4.278
UAH	0.092	0.123	0.078	0.126	0.754	2.395	27.375	0.387	0.408	0.234	-

Table of Contents**126 Consolidated financial statements of Aegon N.V.****Consolidated income statement of Aegon N.V.**

For the year ended December 31

Amounts in EUR million (except per share data)	Note	2015	2014	2013
Premium income				
	6	20,311	19,864	19,939
Investment income				
	7	8,525	8,148	7,909
Fee and commission income				
	8	2,438	2,137	1,950
Other revenues				
		14	7	6
Total revenues		31,289	30,157	29,805
Income from reinsurance ceded				
	9	3,321	2,906	2,838
Results from financial transactions				
	10	521	13,213	15,393
Other income	11	83	61	393
Total income		35,214	46,338	48,430
Premiums paid to reinsurers				
	6	2,979	3,011	3,108
Policyholder claims and benefits				
	12	23,830	36,214	37,688
Profit sharing and rebates				
	13	31	17	28
Commissions and expenses				
	14	6,485	5,656	5,656
Impairment charges / (reversals)	15	(22)	87	294

Interest charges and related fees				
	16	412	371	355
Other charges	17	774	172	134
Total charges		34,488	45,528	47,262
Income before share in profit / (loss) of joint ventures, associates and tax		726	809	1,168
Share in profit / (loss) of joint ventures				
		142	56	-
Share in profit / (loss) of associates		5	24	21
Income / (loss) before tax				
		873	889	1,189
Income tax	18	(162)	(132)	(200)
Net income / (loss)		712	757	989
Net income / (loss) attributable to:				
Equity holders of Aegon N.V.				
		711	756	986
Non-controlling interests				
		1	1	3
Earnings per share (EUR per share)	19			
Basic earnings per common share				
		0.27	0.29	0.36
Basic earnings per common share B				
		0.01	0.01	0.01
Diluted earnings per common share				
		0.27	0.29	0.36
Diluted earnings per common share B		0.01	0.01	0.01

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Consolidated statement of comprehensive income of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2015	2014	2013
Net income	712	757	989
Items that will not be reclassified to profit or loss:			
Changes in revaluation reserve real estate held for own use			
	13	9	(6)
Remeasurements of defined benefit plans			
	240	(1,156)	562
Income tax relating to items that will not be reclassified	(77)	333	(201)
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments			
	(2,175)	6,759	(3,376)
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments			
	(485)	(702)	(435)
Changes in cash flow hedging reserve			
	446	1,188	(555)
Movement in foreign currency translation and net foreign investment hedging reserves			
	1,414	1,668	(727)
Equity movements of joint ventures			
	(8)	10	(4)
Equity movements of associates			
	(1)	(10)	54

Disposal of group assets			
	(544)	-	-
Income tax relating to items that may be reclassified			
	783	(2,018)	1,295
Other			
	9	(5)	(6)
Total other comprehensive income			
	(386)	6,075	(3,398)
Total comprehensive income			
	326	6,832	(2,409)
Total comprehensive income attributable to:			
Equity holders of Aegon N.V.			
	326	6,833	(2,406)
Non-controlling interests			
	-	(1)	(3)

Table of Contents**128 Consolidated financial statements of Aegon N.V.****Consolidated statement of financial position of Aegon N.V.**

As at December 31

Amounts in EUR million	Note	2015	2014
Assets			
Intangible assets			
	21	2,110	2,073
Investments			
	22	160,478	153,219
Investments for account of policyholders			
	23	200,226	191,467
Derivatives			
	24	11,545	28,014
Investments in joint ventures			
	25	1,561	1,468
Investments in associates			
	26	242	140
Reinsurance assets			
	27	11,257	9,593
Defined benefit assets			
	41	41	38
Deferred tax assets			
	43	25	27
Deferred expenses			
	28	12,547	10,373
Assets held for sale	29	-	9,881

Other assets and receivables			
	30	7,549	7,563
Cash and cash equivalents			
	31	9,594	10,610
Total assets		417,175	424,467
Equity and liabilities			
Shareholders' equity			
	32	23,688	23,957
Other equity instruments			
	33	3,800	3,827
Issued capital and reserves attributable to equity holders of Aegon N.V.			
		27,488	27,784
Non-controlling interests			
		9	9
Group equity		27,497	27,793
Subordinated borrowings			
	34	759	747
Trust pass-through securities			
	35	157	143
Insurance contracts			
	36	123,042	111,927
Insurance contracts for account of policyholders			
	36	112,679	102,250
Investment contracts			
	37	17,718	15,359
Investment contracts for account of policyholders			
	37	90,119	91,849
Derivatives			
	24	10,890	26,048
Borrowings	39	12,445	14,158

Provisions			
	40	175	322
Defined benefit liabilities			
	41	4,471	4,404
Deferred gains			
	42	112	82
Deferred tax liabilities			
	43	2,765	3,151
Liabilities held for sale			
	29	-	7,810
Other liabilities			
	44	14,074	18,152
Accruals	45	272	272
Total liabilities		389,678	396,674
Total equity and liabilities		417,175	424,467

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

For the year ended December 31, 2015

				Re-			Issued		
				measure-			capital		
				ment of			and		
			Revalu-	defined		Other	reserves ¹⁾	Non-con-	
llion	Note	Share	ation	benefit	Other	equity		trolling	Total
		capital	reserves	plans	reserves	instru-		interests	
						ments			
		8,597	8,740	(1,611)	(77)	3,827	27,784	9	27,793
come		-	711	-	-	-	711	1	712
ive									
be									
it or									
on									
eld									
		-	-	13	-	-	13	-	13
		-	-	-	240	-	240	-	240
s									

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assets

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-	-	(2)	(75)	-	-	(77)	-	(77)
-	-	(2,175)	-	-	-	(2,175)	-	(2,175)
-	-	(485)	-	-	-	(485)	-	(485)
-	-	446	-	-	-	446	-	446
-	-	-	(86)	1,500	-	1,414	-	1,414
-	-	-	-	(8)	-	(8)	-	(8)
-	-	-	-	(1)	-	(1)	-	(1)
-	-	(468)	-	(76)	-	(544)	-	(544)
-	-	836	-	(52)	-	783	-	783

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-	10	-	-	-	-	10	(1)	9
-	10	(1,837)	79	1,363	-	(385)	(1)	(386)
-	721	(1,837)	79	1,363	-	326	(0)	326
1	-	-	-	-	-	1	-	1
-	52	-	-	-	-	52	-	52
(211)	(292)	-	-	-	-	(503)	-	(503)
-	1	-	-	-	-	1	-	1
-	(111)	-	-	-	-	(111)	-	(111)
-	(28)	-	-	-	-	(28)	-	(28)
-	(7)	-	-	-	(27)	(33)	-	(33)
8,387	9,075	6,471	(1,532)	1,286	3,800	27,488	9	27,497

¹ Issued capital and reserves attributable to equity holders of Aegon N.V.

² Refer to note 51 for details on the disposals.

Table of Contents**130 Consolidated financial statements of Aegon N.V.****Consolidated statement of changes in equity of Aegon N.V.**

For the year ended December 31, 2014

					Re- measure- ment of		Other equity instru- ments	Issued capital and reserves ¹⁾	Non- con- trolling interests	Total
	Note	Share capital	Retained earnings	Revaluation reserves	defined benefit plans	Other reserves				
y 1,		8,701	8,455	3,023	(706)	(1,778)	5,015	22,709	10	22,719
e / gnized ne		-	756	-	-	-	-	756	1	757
nsive										
will										
l to										
oss:										
l estate wn use										
ments benefit		-	-	9	-	-	-	9	-	9
		-	-		(1,156)	-	-	(1,156)	-	(1,156)

Items
not be
l

-	-	(2)	335	-	-	333	-	333
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-	-	6,759	-	-	-	6,759	-	6,759
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ement
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t of
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-	-	(702)	-	-	-	(702)	-	(702)
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-	-	1,188	-	-	-	1,188	-	1,188
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s in
rency
and

serves

-	-	-	(84)	1,752	-	1,668	-	1,668
---	---	---	------	-------	---	-------	---	-------

s of
res

-	-	-	-	10	-	10	-	10
---	---	---	---	----	---	----	---	----

s of

-	-	-	-	(10)	-	(10)	-	(10)
-	-	(1,968)	-	(50)	-	(2,018)	-	(2,018)

Items

		-	(4)	-	-	-	-	(4)	(1)	(5)
or nsive oss)		-	(4)	5,285	(905)	1,701	-	6,077	(1)	6,075
nsive oss)		-	752	5,285	(905)	1,701	-	6,833	(1)	6,832
nd f ares		-	(67)	-	-	-	-	(67)	-	(67)
y s		-	11	-	-	-	(1,184)	(1,173)	-	(1,173)
paid on ares		(104)	(266)	-	-	-	-	(370)	-	(370)
n		-	(128)	-	-	-	-	(128)	-	(128)
n ative ed		-	(24)	-	-	-	-	(24)	-	(24)
ons and lans		-	7	-	-	-	(4)	3	-	3
per 31,	32, 33	8,597	8,740	8,308	(1,611)	(77)	3,827	27,784	9	27,793

¹ Issued capital and reserves attributable to equity holders of Aegon N.V.

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

For the year ended December 31, 2013

				Re-						
				measure-						
				ment of						
	Note	Share	Retained	Revaluation	defined	Other	Other	Issued	Non-con-	Total
		capital	earnings	reserves	benefit	reserves	equity	capital	trolling	
					plans		instru-	and	interests	
							ments	reserves ¹⁾		
1,		9,099	8,010	6,116	(1,085)	(1,103)	5,018	26,055	13	26,068
/										
nized										
ne										
		-	986	-	-	-	-	986	3	989
sive										
will										
to										
ss:										
estate										
n use										
		-	-	(6)	-	-	-	(6)	-	(6)

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-	-	-	562	-	-	562	-	562
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-	-	1	(202)	-	-	(201)	-	(201)
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ses)
on of
r-sale

-	-	(3,376)	-	-	-	(3,376)	-	(3,376)
---	---	---------	---	---	---	---------	---	---------

ses
to
ement
and
of
r-sale

-	-	(435)	-	-	-	(435)	-	(435)
---	---	-------	---	---	---	-------	---	-------

cash
g

-	-	(555)	-	-	-	(555)	-	(555)
---	---	-------	---	---	---	-------	---	-------

in
ency
nd

erves

-	-	-	19	(746)	-	(727)	-	(727)
---	---	---	----	-------	---	-------	---	-------

of
es

-	-	-	-	(4)	-	(4)	-	(4)
-	-	-	-	54	-	54	-	54

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-	3	-	-	-	-	3	(3)	-
-	-	1,274	-	21	-	1,295	-	1,295
-	(3)	3	-	-	-	-	-	-
-	(4)	-	-	-	-	(4)	(2)	(6)
-	(4)	(3,093)	379	(675)	-	(3,392)	(5)	(3,398)
-	982	(3,093)	379	(675)	-	(2,406)	(3)	(2,409)
2	-	-	-	-	-	2	-	2
(400)	(1)	-	-	-	-	(401)	-	(401)
-	(77)	-	-	-	-	(77)	-	(77)
-	(240)	-	-	-	-	(240)	-	(240)
-	(83)	-	-	-	-	(83)	-	(83)

	-	(146)	-	-	-	-	(146)	-	(146)
ative d	-	(21)	-	-	-	-	(21)	-	(21)
ns and ans	-	30	-	-	-	(3)	27	-	27
er 31,									
32, 33	8,701	8,455	3,023	(706)	(1,778)	5,015	22,709	10	22,719

¹ Issued capital and reserves attributable to equity holders of Aegon N.V.

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132 Consolidated financial statements of Aegon N.V.

Consolidated cash flow statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	Note	2015	2014	2013
Income / (loss) before tax		873	889	1,189
Results from financial transactions		(896)	(13,640)	(16,219)
Amortization and depreciation		1,405	971	1,011
Impairment losses		(13)	87	322
Income from joint ventures		(142)	(56)	-
Income from associates		(5)	(24)	(21)
Release of cash flow hedging reserve		(39)	(12)	(26)
Remeasurements of defined benefit plans		234	(1,156)	562
Other		476	187	(146)
Adjustments of non-cash items		1,020	(13,644)	(14,517)
Insurance and investment liabilities		3,381	6,375	(679)
Insurance and investment liabilities for account of policyholders		(3,343) (2,077)	12,302 2,147	18,787 (2,509)

Accrued expenses and other liabilities			
Accrued income and prepayments	(1,387)	(2,266)	(927)
Changes in accruals	(3,426)	18,559	14,672
Purchase of investments (other than money market investments)	(38,290)	(36,577)	(34,100)
Purchase of derivatives	(1,003)	1,417	(850)
Disposal of investments (other than money market investments)	36,619	33,846	31,176
Disposal of derivatives	3,099	1,589	182
Net purchase of investments for account of policyholders	4,371	(1,788)	(1,395)
Net change in cash collateral	(2,569)	627	(1,414)
Net purchase of money market investments	648	(958)	3,221
Cash flow movements on operating items not reflected in income	2,875	(1,843)	(3,180)
Tax paid	(405)	148	(164)
Other	(23)	12	(9)
Net cash flows from operating activities	914	4,122	(2,011)
Purchase of individual intangible assets (other than VOBA and future servicing rights)	(52)	(28)	(22)
Purchase of equipment and real estate for own use	(90)	(77)	(66)
	(239)	(95)	(291)

Acquisition of subsidiaries, joint ventures and associates, net of cash			
Disposal of equipment	8	13	15
Disposal of subsidiaries, joint ventures and associates, net of cash	912	42	811
Dividend received from joint ventures and associates	76	75	64
Other	-	-	5
Net cash flows from investing activities	615	(71)	516
Issuance of share capital	1	-	2
Issuance and purchase of treasury shares	(213)	(199)	(92)
Proceeds from TRUPS ¹⁾ , subordinated loans and borrowings	1,821	3,862	1,056
Repayment of perpetuials	-	(1,173)	-
Repayment of share premium	-	-	(401)
Repayment of TRUPS ¹⁾ , subordinated loans and borrowings	(3,916)	(1,307)	(2,283)
Dividends paid	(292)	(266)	(323)
Coupons on perpetual securities	(148)	(171)	(194)
Coupons on non-cumulative subordinated notes	(38)	(32)	(28)
Other	-	-	(8)

Net cash flows from financing activities		(2,785)	715	(2,271)
Net increase / (decrease) in cash and cash equivalents ²⁾		(1,257)	4,766	(3,766)
Net cash and cash equivalents at the beginning of the year		10,649	5,652	9,497
Effects of changes in exchange rate		200	231	(79)
Net cash and cash equivalents at the end of the year	31	9,593	10,649	5,652

¹ Trust pass-through securities.

² Included in net increase / (decrease) in cash and cash equivalents are interest received (2015: EUR 7,118 million, 2014: EUR 6,711 million, and 2013: EUR 6,731 million) dividends received (2015: EUR 1,384 million, 2014: EUR 1,342 million, and 2013: EUR 1,021 million) and interest paid (2015: EUR 350 million, 2014: EUR 320 million, and 2013: EUR 347 million).

The cash flow statement is prepared according to the indirect method.

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Notes to the consolidated financial statements**1 General information**

Aegon N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague, the Netherlands. Aegon N.V. serves as the holding company for the Aegon Group and has listings of its common shares in Amsterdam and New York.

Aegon N.V. (or the Company) and its subsidiaries (Aegon or the Group) have life insurance and pensions operations in over 25 countries in the Americas, Europe and Asia and are also active in savings and asset management operations, accident and health insurance, general insurance and to a limited extent banking operations. Headquarters are located in The Hague, the Netherlands. The Group employs over 31,500 people worldwide (2014: over 28,000).

2 Summary of significant accounting policies**2.1 Basis of presentation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual Report on Form 20-F.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2015 is provided below in note 2.1.1 Adoption of new IFRS accounting standards. The consolidated financial statements are presented in euro and all values are rounded to the nearest million unless otherwise stated. The consequence is that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain amounts in prior years may have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income, shareholders' equity or earnings per share.

With regard to the income statements of Aegon N.V., article 402, Part 9 of Book 2 of the Netherlands Civil Code has been applied, allowing a simplified format.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred policy acquisition costs, value of business acquired and other purchased intangible assets, goodwill, policyholder claims and benefits, insurance guarantees, pension plans, income taxes and the potential effects of resolving litigation matters.

The consolidated financial statements of Aegon N.V. were approved by the Executive Board and by the Supervisory Board on March 25, 2016. The financial statements will be put for adoption to the Annual General Meeting of Shareholders on May 20, 2016. The shareholders' meeting can decide not to adopt the financial statements but cannot amend them.

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

Table of Contents**134** Notes to the consolidated financial statements **Note 2**

A reconciliation between IFRS and IFRS-EU is included in the table below.

		Shareholders	equity			Net income
	2015	2014	2013	2015	2014	2013
In accordance with IFRS	23,688	23,957	17,694	712	757	989
Adjustment of EU IAS 39 carve-out	315	434	(124)	(120)	559	(176)
Tax effect of the adjustment	(71)	(98)	31	27	(129)	44
Effect of the adjustment after tax	244	336	(93)	(92)	429	(132)
In accordance with IFRS-EU	23,931	24,293	17,601	619	1,186	857

2.1.1 Adoption of new IFRS accounting standards

New standards and amendments to standards become effective at the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2015, the following amendments to existing standards issued by the IASB became mandatory but are not currently relevant or do not significantly impact the financial position or financial statements:

- ⌚ IAS 19 Employee Benefits - Amendment Employee Contributions;
- ⌚ Annual improvements 2010-2012 Cycle; and
- ⌚ Annual improvements 2011-2013 Cycle.

2.1.2 Future adoption of new IFRS accounting standards

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2016, were not early adopted by the Group, but will be applied in future years:

- ⌚ IFRS 9 Financial Instruments; and
- ⌚ IFRS 15 Revenue from Contracts with Customers.

IFRS 9 Financial Instruments

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 and all previous versions of IFRS 9. Under IFRS 9 Classification and Measurement, financial assets are measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are measured at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the impairment component, the IASB included requirements for a credit loss allowance or provision which should be based on expected losses rather than incurred losses.

Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. However, at the time of issuance of the new standard, the IASB said it would consider potential challenges arising if IFRS 9 is implemented before the new insurance contracts standard (IFRS 4 Phase II - which is at an advanced stage of development but it is expected that it will not become effective before 2021). Subsequent discussions at the IASB have resulted in a proposal for temporary deferral for insurers which was further described in an Exposure Draft: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts issued by the IASB in December 2015. The comment period ended on February 8, 2016. The measures that the Exposure Draft proposes to introduce into IFRS 4 are:

- ⌚ The overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss to remove any additional accounting volatility that may arise from qualifying financial assets, and
- ⌚ The deferral approach – an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts.

Those new measures would supplement other measures, including the flexibility offered by the existing IFRS 4 in choosing an accounting policy for insurance contracts (e.g. an option to adjust the measurement of insurance contracts to reduce accounting volatility) and the transition reliefs to be included in the new insurance contracts Standard for entities that apply that Standard after they apply IFRS 9.

At this stage it is not yet clear whether Aegon is planning or able to use the overlay or deferral approach. The implementation of IFRS 9 is expected to have a significant impact on shareholders' equity, net result and/or other comprehensive income and disclosures. The full impact however will only be clear after full assessment of the standard.

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IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18 Revenue, as well as other IFRIC and SIC interpretations regarding revenue unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The standard outlines the principles an entity shall apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will be effective for the Group on January 1, 2018, using either of two methods: a full retrospective approach with certain practical expedients or a modified retrospective approach with the cumulative effect of initially applying this standard recognized at the date of initial application with certain additional disclosures. Aegon is evaluating the impact that adoption of this standard is expected to have on the Group's financial statements. The full impact will only be clear after full assessment of the standard.

The following new standards and amendments to existing standards and interpretations, published prior to January 1, 2016, which are not yet effective for the Group nor early adopted, are not expected to significantly impact the financial position or financial statements:

- ⌚ IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception;
- ⌚ IFRS 11 Joint Arrangements - Amendment Accounting for Acquisition of Interests in Joint Operations;
- ⌚ IFRS 14 Regulatory Deferral Accounts;
- ⌚ IAS 1 - Amendment Disclosure Initiative;
- ⌚ IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements;
- ⌚ IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization; and
- ⌚ Annual improvements 2012-2014 Cycle.

2.2 Basis of consolidation**Subsidiaries**

The consolidated financial statements include the financial statements of Aegon N.V. and its subsidiaries. Subsidiaries (including consolidated structured entities) are entities over which Aegon has control. Aegon controls an entity when Aegon is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between the Group and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the Group's accounting policies, which is consistent with IFRS. Intra-group transactions, including Aegon N.V. shares held by subsidiaries, which are recognized as treasury shares in equity, are eliminated. Intra-group losses are eliminated, except to the extent that the underlying asset is impaired. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the Group's share in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair value of the assets, liabilities and contingent liabilities acquired in the business combination has been determined provisionally, adjustments to these values resulting from the emergence of new evidence within 12 months after the acquisition date are made against goodwill. Aegon recognized contingent considerations either as provision or as financial liability depending on the characteristics. Contingent considerations recognized as provisions are discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent consideration given in a business combination are recognized in the income statement. Contingent considerations recognized as financial liabilities are measured at fair value through profit or loss.

The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

Transactions with non-controlling interests

Transactions with non-controlling interests are accounted for as transactions with equity holders. Therefore disposals to non-controlling interests and acquisitions from non-controlling interests, not resulting in losing or gaining control of the subsidiary are recorded in other comprehensive income. Any difference between consideration paid or received and the proportionate share in net assets is accounted for in equity attributable to shareholders of Aegon N.V.

Table of Contents**136** Notes to the consolidated financial statements **Note 2****Investment funds**

Investment funds managed by the Group in which the Group holds an interest are consolidated in the financial statements if the Group has power over that investment fund and it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, all interests held by the Group in the fund are considered, regardless of whether the financial risk related to the investment is borne by the Group or by the policyholders (unless a direct link between the policyholder and the fund can be assumed).

In determining whether Aegon has power over an investment fund all facts and circumstances are considered, including the following:

- ⌚ Control structure of the asset manager (i.e. whether an Aegon subsidiary);
- ⌚ The investment constraints posed by investment mandate;
- ⌚ Legal rights held by the policyholder to the separate assets in the investment vehicle (e.g. policyholders could have the voting rights related to these investments);
- ⌚ The governance structure, such as an independent board of directors, representing the policyholders, which has substantive rights (e.g. to elect or remove the asset manager); and
- ⌚ Rights held by other parties (e.g. voting rights of policyholders that are substantive or not).

Exposure or rights to variability of returns can be the result of, for example:

- ⌚ General account investment of Aegon;
- ⌚ Aegon's investments held for policyholder;
- ⌚ Guarantees provided by Aegon on return of policyholders in specific investment vehicles;
- ⌚ Fees dependent on fund value (including, but not limited to, asset management fees); and
- ⌚ Fees dependent on performance of the fund (including, but not limited to, performance fees).

Investment funds where Aegon acts as an agent are not consolidated due to lack of control of the funds. In particular, for some separate accounts, the independent board of directors has substantive rights and therefore Aegon does not have power over these separate accounts but acts as an agent.

For limited partnerships, the assessment takes into account Aegon's legal position (i.e. limited partner or general partner) and any substantive removal rights held by other parties. Professional judgment is applied concerning the substantiveness of the removal rights and the magnitude of the exposure to variable returns, leading to the conclusion that Aegon controls some, but not all, of the limited partnerships in which it participates.

Upon consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. The liability is presented in the consolidated financial statements as investment contracts for account of policyholders. Where no repurchase obligation exists, the participations held by third parties are presented as non-controlling interests in equity. The assets allocated to participations held by third parties or by the Group on behalf of policyholders are presented in the consolidated financial statements as investments for account of policyholders.

Equity instruments issued by the Group that are held by investment funds are eliminated on consolidation. However, the elimination is reflected in equity and not in the measurement of the related financial liabilities towards policyholders or other third parties.

Structured entities

A structured entity is defined in IFRS 12 as An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In these instances the tests and indicators to assess control provided by IFRS 10 have more focus on the purpose and design of the investee (with relation to the relevant activities that most significantly affect the structured entity) and the exposure to variable returns, which for structured entities lies in interests through e.g. derivatives, and will not be focused on entities that are controlled by voting rights.

Structured entities that are consolidated include certain mortgage backed securitization deals, where Aegon was involved in the design of the structured entities and also has the ability to use its power to affect the amount of the investee's returns. Other factors that contribute to the conclusion that consolidation of these entities is required includes consideration of whether Aegon fully services the investees and can therefore influence the defaults of the mortgage portfolios and the fact that in these cases the majority of risks are maintained by Aegon.

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Structured entities that are not consolidated include general account investments in non-affiliated structured entities that are used for investment purposes.

Non-current assets held for sale and disposal groups

Disposal groups are classified as held for sale if they are available for immediate sale in their present condition, subject only to the customary sales terms of such assets and disposal groups and their sale is considered highly probable. Management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to their fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognized through a reduction of the carrying value of any goodwill related to the disposal group or the carrying value of certain other non-current, non-financial assets to the extent that the carrying value of those assets exceeds their fair value. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognized upon classification as held for sale, but is recognized as part of the result on disposal if and when a divestment transaction occurs.

Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

2.3 Foreign exchange translation

a. Translation of foreign currency transactions

The Group's consolidated financial statements are presented in euros. Items included in the financial statements of individual group companies are recorded in their respective functional currency which is the currency of the primary economic environment in which each entity operates. Transactions in foreign currencies are initially recorded at the exchange rate prevailing at the date of the transaction.

At the balance sheet date, monetary assets and monetary liabilities in foreign currencies and own equity instruments in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

b. Translation of foreign currency operations

On consolidation, the financial statements of group entities with a foreign functional currency are translated to euro, the currency in which the consolidated financial statements are presented. Assets and liabilities are translated at the closing rates on the balance sheet date. Income, expenses and capital transactions (such as dividends) are translated at

average exchange rates or at the prevailing rates on the transaction date, if more appropriate. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated at the closing rates on the balance sheet date.

The resulting exchange differences are recognized in the foreign currency translation reserve, which is part of shareholders' equity. On disposal of a foreign entity the related cumulative exchange differences included in the reserve are recognized in the income statement.

2.4 Segment reporting

Aegon conducts its operations through five primary reporting segments:

- ⌚ Aegon Americas: Covers business units in the United States, Canada (until July 31, 2015), Brazil and Mexico, including any of the units' activities located outside these countries;
- ⌚ Aegon the Netherlands: Covers businesses operating in the Netherlands;
- ⌚ Aegon UK: Covers businesses operating in the United Kingdom;
- ⌚ New Markets: Covers businesses operating in Central & Eastern Europe; Asia, Spain and Portugal, as well as Aegon's variable annuity activities in Europe and Aegon Asset Management that are aggregated as one reportable segment due to their respective size;
- ⌚ Holding and other activities: Includes financing, employee and other administrative expenses of holding companies.

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These segments are based on the business as presented in internal reports that are regularly reviewed by the Executive Board which is regarded as the chief operating decision maker. Aegon's segment information is prepared by consolidating on a proportionate basis Aegon's joint ventures and associated companies.

Segment measures are explained and disclosed in note 5 Segment information.

2.5 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterpart.

2.6 Intangible assets**a. Goodwill**

Goodwill is recognized as an intangible asset for interests in subsidiaries and is measured as the positive difference between the acquisition cost and the Group's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary or joint venture is disposed.

b. Value of business acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA). The Group also recognizes VOBA when it acquires a portfolio of investment contracts with discretionary participation features.

VOBA is amortized over the useful life of the acquired contracts, based on either the expected future premiums or the expected gross profit margins. The amortization period and pattern are reviewed at each reporting date; any change in estimates is recorded in the income statement. For all products, VOBA, in conjunction with deferred policy acquisition costs (DPAC) where appropriate, is assessed for recoverability on a country-by-country basis and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test for each reporting period.

When unrealized gains or losses arise on available-for-sale assets, VOBA is adjusted to equal the effect that the realization of the gains or losses (through a sale or impairment) would have had on VOBA. The adjustment is recognized directly in shareholders' equity. VOBA is derecognized when the related contracts are settled or disposed.

c. Future servicing rights

On the acquisition of a portfolio of investment contracts without discretionary participation features under which Aegon will render investment management services, the present value of future servicing rights is recognized as an intangible asset. Future servicing rights can also be recognized on the sale of a loan portfolio or the acquisition of

insurance agency activities.

The present value of the future servicing rights is amortized over the servicing period and is subject to impairment testing. It is derecognized when the related contracts are settled or disposed.

Where applicable, Aegon recognizes other intangibles on the acquisition of a business combination such as those related to customer relationships. This can include customer contracts, distribution agreements and client portfolios. For these intangibles the present value of future cash flows are recognized and amortized in the period when future economic benefits arise from these intangibles. These intangible assets are also presented under future servicing rights.

[d. Software and other intangible assets](#)

Software and other intangible assets are recognized to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

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Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in the income statement.

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.7 Investments

General account investments comprise financial assets, excluding derivatives, as well as investments in real estate.

a. Financial assets, excluding derivatives

Financial assets are recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the Group's investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances the Group designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments, that are not quoted in an active market and that the Group does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale.

All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and financial assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

The consolidated financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the values are provided in the notes to the financial statements.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair

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value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. The valuation techniques that include unobservable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset's cash flows expire and when the Group retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full without delay to a third party and either: has transferred the asset and substantially all the risks and rewards of ownership, or has neither transferred nor retained all the risks and rewards but has transferred control of the asset. Financial assets of which the Group has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Group's continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders' equity is also recognized in the income statement.

Security lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash (collateral) received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash (collateral) paid by Aegon. The difference between sale and repurchase price is treated as investment income. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

b. Real estate

Investments in real estate include property held to earn rentals or for capital appreciation, or both. Investments in real estate are presented as investments. Property that is occupied by the Group and that is not intended to be sold in the near future is classified as real estate held for own use and is presented in Other assets and receivables.

All property is initially recognized at cost. Such cost includes the cost of replacing part of the real estate and borrowing cost for long-term construction projects if recognition criteria are met. Subsequently, investments in real

estate are measured at fair value with the changes in fair value recognized in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognized in the related revaluation reserve in shareholders' equity and are released to other comprehensive income over the remaining useful life of the property.

On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

[Maintenance costs and other subsequent expenditure](#)

Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

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2.8 Investments for account of policyholders

Investments held for account of policyholders consist of investments in financial assets as well as investments in real estate.

Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. Investments for account of policyholders are valued at fair value through profit or loss.

2.9 Derivatives**a. Definition**

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Group considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. Derivatives for which the contractual obligation can only be settled by exchanging a fixed amount of cash for a fixed amount of Aegon N.V. equity instruments are accounted for in shareholders' equity.

b. Measurement

All derivatives recognized on the statement of financial position are carried at fair value.

The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible.

c. Hedge accounting

As part of its asset liability management, the Group enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be

effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item.

For hedge accounting purposes, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the profit and loss account over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecasted transaction or a recognized asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognized in the related revaluation reserve in shareholders equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in shareholders equity is released to the income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in shareholders equity is included in the initial cost of the asset or liability.

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Net investment hedges are hedges of currency exposures on a net investment in a foreign operation. To the extent that the hedge is effective, the change in the fair value of the hedging instrument is recognized in shareholders' equity. Any ineffectiveness is recognized in the income statement. The amount in shareholders' equity is released to the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a fair value hedge, the derivative continues to be carried on the statement of financial position with changes in its fair value recognized in the income statement. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders' equity is recognized immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders' equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

2.10 Investments in joint arrangements

In general, joint arrangements are contractual agreements whereby the Group undertakes, with other parties, an economic activity that is subject to joint control. Joint control exists when it is contractually agreed to share control over an economic activity. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Aegon has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If joint ventures are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the joint venture and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded in other comprehensive income by the joint venture are reflected in other reserves in shareholders' equity, while the share in the joint ventures net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the joint ventures equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the joint venture are not eliminated.

On disposal of an interest in a joint venture, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.11 Investments in associates

Entities over which the Group has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary, are accounted for using the equity method. Interests held by venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by the Group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Interests in associates are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If associates are obtained in successive share purchases, each significant transaction is accounted for separately.

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The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the associate and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded in other comprehensive income by the associate are reflected in other reserves in shareholders' equity, while the share in the associate's net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the associate's equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the associate are not eliminated.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.12 Reinsurance assets

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for claims/benefits incurred on contracts written by the Group (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Aegon is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying insurance contracts will continue to be reported on the consolidated statement of financial position during the contractual term of the underlying contracts.

Reinsurance premiums, commissions and claim settlements are accounted for in the same way as the original contracts for which the reinsurance was concluded. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

2.13 Deferred expenses**a. Deferred policy acquisition costs (DPAC)**

DPAC relates to all insurance contracts as well as investment contracts with discretionary participation features and represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts.

Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on factors such as expected gross profit margins. For products sold in the United States with amortization based on expected gross profit margins, the amortization period and pattern are reviewed at each reporting date and any change in estimates is recognized in the income statement. Estimates include, but are not limited to: an economic perspective in terms of future returns on bond and equity instruments, mortality, morbidity and lapse assumptions, maintenance expenses and expected inflation rates.

For all products, DPAC, in conjunction with VOBA where appropriate, is assessed for recoverability at least annually on a country-by-country basis as part of the liability adequacy test for each reporting period. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. The portion of DPAC that is determined not to be recoverable is charged to the income statement.

For products sold in the United States, when unrealized gains or losses arise on available-for-sale assets, DPAC is adjusted to equal the effect that the realization of the gains or losses (through sale or impairment) would have had on its measurement. This is recognized directly in the related revaluation reserve in shareholders' equity.

DPAC is derecognized when the related contracts are settled or disposed.

Table of Contents**144** Notes to the consolidated financial statements **Note 2****b. Deferred cost of reinsurance**

A deferred cost of reinsurance is established when Aegon enters into a reinsurance transaction. Aegon is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying business.

Gains or losses on buying reinsurance are amortized based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

c. Deferred transaction costs

Deferred transaction costs relate to investment contracts without discretionary participation features under which Aegon will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the carrying amount of the financial liability.

The deferred transaction costs are amortized in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. The amortization is recognized in the income statement. Deferred transaction costs are subject to impairment testing at least annually.

Deferred transaction costs are derecognized when the related contracts are settled or disposed.

2.14 Other assets and receivables

Other assets include trade and other receivables, prepaid expenses, equipment and real estate held for own use. Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost. Equipment is initially carried at cost, depreciated on a straight line basis over its useful life to its residual value and is subject to impairment testing. The accounting for real estate held for own use is described in note 2.7 Investments.

2.15 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments generally with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

2.16 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinite useful life that are not amortized, are tested at least annually.

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Any of these situations could result in a charge against the income statement to the extent of the impairment charge recorded.

[a. Impairment of non-financial assets](#)

Assets are tested individually for impairment when there are indications that the asset may be impaired. For goodwill and intangible assets with an undefined life, an impairment test is performed at least once a year or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its fair value less cost of disposal. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties. The valuation utilizes the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates. Refer to note 21 Intangible assets for more details.

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Impairment losses are charged to shareholders' equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally and cannot be larger than an operating segment. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets' recoverable amounts.

b. Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed what the amortized cost would have been at the reversal date, had the impairment not been recognized.

c. Impairment of equity instruments

For equity instruments, objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in fair value below initial cost is also considered objective evidence of impairment and always results in a loss being recognized in the income statement. Significant or prolonged decline is defined as an unrealized loss position for generally more than six months or a fair value of less than 80% of the cost price of the investment. Equity investments are impaired to the asset's fair value and any unrealized gain or loss previously recognized in shareholders' equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement. If an available-for-sale equity security is impaired based upon Aegon's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon Aegon's impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

Impairment losses on equity instruments cannot be reversed.

Table of Contents**146** Notes to the consolidated financial statements **Note 2****d. Impairment of reinsurance assets**

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer's current and expected future financial conditions plus any collateral held in trust for Aegon's benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognized in the income statement.

2.17 Equity

Financial instruments that are issued by the Group are classified as equity if they represent a residual interest in the assets of the Group after deducting all of its liabilities and the Group has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. In addition to common shares, the Group has issued perpetual securities. Perpetual securities have no final maturity date, repayment is at the discretion of Aegon and for junior perpetual capital securities, Aegon has the option to defer coupon payments at its discretion. The perpetual capital securities are classified as equity rather than debt, are measured at par and those that are denominated in US dollars are translated into euro using historical exchange rates.

Non-cumulative subordinated notes are identified as a compound instrument due to the nature of this financial instrument. For these non-cumulative subordinated notes, Aegon has an unconditional right to avoid delivering cash or another financial asset to settle the coupon payments. The redemption of the principal is however not at the discretion of Aegon and therefore Aegon has a contractual obligation to settle the redemption in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for Aegon. Compound instruments are separated into liability components and equity components. The liability component for the non-cumulative subordinated notes is equal to the present value of the redemption amount and carried at amortized cost using the effective interest rate method. The unwinding of the discount of this component is recognized in the income statement. The liability component is derecognized when the Group's obligation under the contract expires, is discharged or is cancelled. The equity component is assigned the residual amount after deducting the liability component from the fair value of the instrument as a whole. The equity component in US dollars is translated into euro using historical exchange rates.

Incremental external costs that are directly attributable to the issuing or buying back of own equity instruments are recognized in equity, net of tax. For compound instruments incremental external costs that are directly attributable to the issuing or buying back of the compound instruments are recognized proportionate to the equity component and liability component, net of tax.

Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Treasury shares are shares issued by Aegon N.V. that are held by Aegon, one of its subsidiaries or by another entity controlled by Aegon. Treasury shares are deducted from Group equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders' equity. All treasury shares are eliminated in the calculation of

earnings per share and dividend per common share.

2.18 Trust pass-through securities and (subordinated) borrowings

A financial instrument issued by the Group is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the Group.

Trust pass-through securities and (subordinated) borrowings are initially recognized at their fair value including directly attributable transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through profit or loss as they are managed and evaluated on a fair value basis. The liability is derecognized when the Group's obligation under the contract expires, is discharged or is cancelled.

Subordinated borrowings include the liability component of non-cumulative subordinated notes. These notes are identified as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into equity components and liability components. The liability component for the non-cumulative subordinated notes is related to the redemption amount. For further information on the accounting policy of the non-cumulative subordinated notes refer to note 2.17 Equity.

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2.19 Insurance contracts

Insurance contracts are accounted for under IFRS 4 Insurance Contracts. In accordance with this standard, Aegon continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by IFRS 4 for standards effective subsequent to adoption. Aegon applies, in general, non-uniform accounting policies for insurance liabilities and intangible assets to the extent that it was allowed under Dutch Accounting Principles. As a result, specific methodologies applied may differ between Aegon's operations as they may reflect local regulatory requirements and local practices for specific product features in these local markets. At the time of IFRS adoption, Aegon was applying US GAAP for its United States operations whereas in the Netherlands and the United Kingdom, Aegon was applying Dutch Accounting Principles. Since adoption of IFRS, Aegon has considered new and amended standards in those GAAPs which have become effective subsequent to the date of transition to IFRS. If any changes are made to current accounting policies for insurance contracts, these will be in accordance with IFRS 4.

Insurance contracts are contracts under which the Group accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled. Within the United States and the Netherlands, substantially modified contracts are accounted for as an extinguishment of the original liability and the recognition of a new liability.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by the Group prior to the transition to IFRS and with consideration of standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. In order to reflect the specific nature of the products written, subsidiaries are allowed to apply local accounting principles to the measurement of insurance contracts. All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

a. Life insurance contracts

Life insurance contracts are insurance contracts with life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

Liabilities arising from traditional life insurance products that are offered by Aegon, particularly those with fixed and guaranteed account terms, are typically measured using the net premium method. Under this method the liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions

or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

Depending on local accounting principles, the liability may include amounts for future services on contracts where the policy administration charges are higher in the initial years than in subsequent years.

Terms and conditions, including participation features and expected lapse rates, are considered when establishing the insurance liabilities. Where the Group has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.19 c Embedded derivatives or, if bifurcated from the host contract, as described in note 2.9 Derivatives.

b. Life insurance contracts for account of policyholders

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders.

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The liability for the insurance contracts for account of policyholders is measured at the policyholder account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. If applicable, the liability representing the nominal value of the policyholder unit account is amortized over the term of the contract so that interest on actuarial funding is at an expected rate of return.

c. Embedded derivatives

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives.

Guaranteed minimum benefits

Certain life insurance contracts, issued by the Group, contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives.

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

In the Netherlands, an additional liability is established for guaranteed minimum investment returns on group pension plans with profit sharing and on traditional insurance contracts, with profit sharing based on an external interest index, that are not bifurcated. These guarantees are measured at fair value.

d. Shadow accounting

Shadow accounting allows that all gains and losses on investments affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of VOBA or DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized through other comprehensive income in the revaluation reserve, together with the unrealized gain or loss.

Some profit sharing schemes issued by the Group entitle the policyholder to a bonus which is based on the actual total return on specific assets held. To the extent that the bonus relates to gains or losses on available-for-sale investments for which the unrealized gains or losses are recognized in the revaluation reserve in equity, shadow accounting is

applied. This means that the increase in the liability is also charged to equity to offset the unrealized gains rather than to the income statement.

e. Non-life insurance contracts

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the coverage period of the premium and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities.

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Discounting of liabilities is generally applied when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

f. Liability adequacy testing

At each reporting date, the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of VOBA and DPAC, is assessed using a liability adequacy test.

All tests performed within the Group are based on current estimates of all contractual future cash flows, including related cash flows from policyholder options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling. Aggregation levels are set either on geographical jurisdiction or at the level of portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio. Specifically, in the Netherlands and the UK the liability adequacy test is performed on a consolidated basis for all life and non-life business, whereas in the Americas it is performed at the level of the portfolio of contracts. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on management's expectation of the future return on investments. These future returns on investments take into account management's best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity. Aegon the Netherlands, as required locally, adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of the assets that are measured at amortized cost in the balance sheet.

To the extent that the account balances are insufficient to meet future benefits and expenses, any resulting deficiency is recognized in the income statement, initially by impairing the DPAC and VOBA and subsequently by establishing an insurance liability for the remaining loss, unless shadow loss recognition has taken place. In the Netherlands, in situations where market interest rates for the valuation of debt securities leads to a change in the revaluation reserve, and where the result of using the same assumptions for the liabilities could lead to a deficiency in the liability adequacy test that should be recognized in the income statement, shadow loss recognition is applied. Shadow loss recognition is applied to the extent that the deficiency of the insurance liabilities relates to the revaluation of debt securities as a result of movements in interest rates, the addition to the insurance liabilities is then off set against the revaluation reserve. If in subsequent periods such a deficiency of the insurance liability is no longer applicable, shadow loss recognition is reversed via the revaluation reserve.

The adequacy of the non-life insurance liability is tested at each reporting date. Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

2.20 Investment contracts

Contracts issued by the Group that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Group are accounted for as investment contracts. Depending on whether the Group or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is

cancelled.

a. Investment contracts with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investment contracts, specific investments held by the Group or on the issuer's net income. If the Group has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Some unitized investment contracts provide policyholders with the option to switch between funds with and without discretionary participation features. The entire contract is accounted for as an investment contract with discretionary participation features if there is evidence of actual switching resulting in discretionary participation benefits that are a significant part of the total contractual benefits.

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At inception, investment contracts without discretionary features are carried at amortized cost.

Investment contracts without discretionary participation features are carried at amortized cost based on the expected cash flows and using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the income statement. For these investment contracts deposit accounting is applied, meaning that deposits are not reflected as premium income, but are recognized as part of the financial liability.

The consolidated financial statements provide information on the fair value of all financial liabilities, including those carried at amortized cost. As these contracts are not quoted in active markets, their value is determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. For investment contracts without discretionary participation features that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

c. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholder. Also included are participations held by third parties in consolidated investment funds that meet the definition of a financial liability.

Investment contracts for account of policyholders are designated at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Group recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and recognized as a deferred revenue liability, refer to note 2.23 Deferred gains.

2.21 Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

Onerous contracts

With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligations exceed the expected future economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

2.22 Assets and liabilities relating to employee benefits

a. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee benefits expected to be settled within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which the service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

b. Post-employment benefits

The Group has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when the Group has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset is recognized to the extent that the contribution paid exceeds the amount due for services provided.

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Defined benefit plans**Measurement**

The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. In measuring the defined benefit obligation the Group uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables. The benefits are discounted using an interest rate based on the market yield for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future salary increases, mortality rates and price inflation. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected. Plan improvements (either vested or unvested) are recognized in the income statement at the date when the plan improvement occurs.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the Group's creditors. They are measured at fair value and are deducted from the defined benefit obligation in determining the amount recognized on the statement of financial position.

Profit or loss recognition

The cost of the defined benefit plans are determined at the beginning of the year and comprise the following components:

- ⌚ Current year service cost which is recognized in profit or loss; and
- ⌚ Net interest on the net defined benefit liability (asset) which is recognized in profit or loss.

Remeasurements of the net defined benefit liability (asset) which is recognized in other comprehensive income are revisited quarterly and shall not be reclassified to profit or loss in a subsequent period.

Deducted from current year service cost are discretionary employee contributions and employee contributions that are linked to service (those which are independent of the number of years of service). Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the applicable discount rate. Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest cost on the defined benefit obligation. Whereby interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the applicable discount rate. The difference between the interest income on plan assets and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset) comprise of:

- ⌚ Actuarial gains and losses;
- ⌚ The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
- ⌚

Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Settlements

Gains or losses on curtailments or settlements of a defined benefit plan comprise of the difference between:

- ⌚ The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
- ⌚ The settlement price, including any plan assets transferred and any payments made directly by Aegon in connection with the settlement.

Aegon recognizes (in the income statement) gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

c. Share-based payments

The Group has issued share-based plans that entitle employees to receive equity instruments issued by the Group or cash payments based on the price of Aegon N.V. common shares. Some plans provide employees of the Group with the choice of settlement.

For share option plans that are equity-settled, the expense recognized is based on the fair value on the grant date of the share options, which does not reflect any performance conditions other than conditions linked to the price of the Group's shares. For long-term share-based plans where employees are granted the conditional right to receive Aegon shares if certain performance indicators are met and depending on continued employment of the individual employee, expenses recognized are based on the fair value on the grant date of the shares. The fair value is measured at the market price of the entities shares, adjusted to take into account the terms and conditions upon which the shares were granted. For example, where the employee is not entitled to receive dividends during the vesting period, this factor is taken into account when estimating the fair value of the shares granted. For the determination of factors such as expected dividends, market observable data has been considered.

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The cost for share option plans and long term incentive plans are recognized in the income statement, together with a corresponding increase in shareholders' equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management's best estimate of the number of shares expected to vest ultimately.

Share appreciation right plans are initially recognized at fair value at the grant date, taking into account the terms and conditions on which the instruments were granted. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

Share option plans that can be settled in either shares or cash at the discretion of the employee and/or employer are accounted for as a compound financial instrument, which includes a debt component and an equity component.

2.23 Deferred gains**a. Deferred revenue liability**

Initial fees and front-end loadings paid by policyholders and other clients for future investment management services related to investment contracts without discretionary participation features are deferred and recognized as revenue when the related services are rendered.

b. Deferred gain on reinsurance

A deferred gain on reinsurance is established when Aegon enters into a reinsurance transaction. Aegon is not relieved of its legal liabilities, so the insurance liabilities relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying business.

Gains or losses on buying reinsurance are amortized based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

2.24 Tax assets and liabilities**a. Current tax assets and liabilities**

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

b. Deferred tax assets and liabilities

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

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

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon's deferred tax positions at each reporting period to determine if it is probable that the assets will be realized. These reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning opportunities it can utilize to increase the likelihood that the tax assets will be realized. The carrying amount is not discounted and reflects the Group's expectations concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in profit and loss, other comprehensive income or directly in equity.

2.25 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

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A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.26 Premium income

Gross premiums, including recurring and single premiums, from life and non-life insurance and investment contracts with discretionary participation features are recognized as revenue when they become receivable. For products where deposit accounting is required, the deposits are not reflected as premium income, but are recognized as part of the financial liability. For these products the surrender charges and charges assessed have been included in gross premiums.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense. Depending on the applicable local accounting principles, bonuses that are used to increase the insured benefits may be recognized as gross premiums. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

2.27 Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend income on financial assets carried at fair value through profit or loss.

Investment income also includes rental income due, as well as fees received for security lending.

2.28 Fee and commission income

Fees and commissions from investment management services and mutual funds, services where Aegon acts as service provider (including mortgage loan fee business) and from sales activities are recognized as revenue over the period in which the services are performed or for sales activities where services have been rendered.

2.29 Policyholder claims and benefits

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

2.30 Results from financial transactions

Results from financial transactions include:

[Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives](#)

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

[Realized gains and losses on financial investments](#)

Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.

[Net fair value change of derivatives](#)

All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net investment in a foreign operation. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

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Net fair value change on for account of policyholder financial assets at fair value through profit or loss

Net fair value change on for account of policyholder financial assets at fair value through profit or loss includes fair value movements of investments held for account of policyholders (refer to note 2.8 Investments for account of policyholders). The net fair value change does not include interest or dividend income.

Other

In addition, results from financial transactions include gains/losses on real estate (general account and account of policyholders), net foreign currency gains/(losses) and net fair value change on borrowings and other financial liabilities and realized gains on repurchased debt.

2.31 Impairment charges/(reversals)

Impairment charges and reversals include impairments and reversals on investments in financial assets, impairments and reversals on the valuation of insurance assets and liabilities and other non-financial assets and receivables. Refer to note 15 Impairment charges/ (reversals).

2.32 Interest charges and related fees

Interest charges and related fees includes interest expense on trust pass-through securities and other borrowings. Interest expense on trust pass-through securities and other borrowings carried at amortized cost is recognized in profit or loss using the effective interest method.

2.33 Leases

Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.34 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance

sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

2.35 Future adoption of voluntary changes in accounting policies

On January 13, 2016, Aegon provided an update on its strategic plans at its Analyst & Investor Conference. Following this update Aegon will make voluntary changes in accounting policies, effective January 1, 2016, to reflect its strategic priorities. The voluntary changes in accounting policies will be applied retrospectively. Firstly, Aegon will adopt a group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. Also, Aegon will make two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom. The changes in the United Kingdom do not impact other reporting units within Aegon as these are changes specific to Aegon UK. However, these changes do increase alignment with other reporting units within Aegon.

In the following paragraphs, details are provided for these changes in accounting policies including the impact on shareholders equity and net income.

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Accounting related to certain reinsurance transactions

Aegon will adopt one single group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. The existing accounting policy records a deferred cost or gain of reinsurance which is subsequently amortized. Under the new accounting policy, when the company enters into a reinsurance transaction as part of a plan to exit a business, an immediate gain or loss will be recognized in the income statement.

For purposes of this accounting policy, a business is defined as designated insurance liabilities to be disposed of through reinsurance transactions. The insurance liabilities are designated according to their homogenous risk profiles, possible examples include but are not limited to geographical area, product type, distribution channel, policyholder profiles, and policy form or riders.

The adoption of the new accounting policy is expected to decrease shareholders' equity at the date of adoption (January 1, 2016) by between USD 0.1 billion and USD 0.2 billion. Aegon estimates that this accounting change will increase net income by approximately USD 10 million, USD 10 million and USD 20 million for the years 2015, 2014 and 2013 respectively as deferred costs of reinsurance are no longer amortized and the initially recorded deferred costs of reinsurance have been directly accounted for in the income statement at the date of the reinsurance transaction.

Insurance accounting for business in United Kingdom

In January 2016, Aegon announced the restructuring of its business and operations in the UK. This involves splitting the Aegon UK business into three components: the annuity business, the traditional pension book and the new digital solutions platform. By extracting the digital solutions platform from the rest of the business, management aims to ensure the focus and separate culture required to successfully build a viable and sustainably growing business over the longer term.

Aegon will make two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom, only effecting Aegon UK. The changes involve the aggregation level at which the liability adequacy test is carried out and the definition of when a substantially modified contract will be derecognized.

Level of aggregation

The current accounting policy for the level of aggregation for the liability adequacy test in the United Kingdom is on a geographical basis, therefore the total Aegon UK book is considered as one population. In the announced restructuring, Aegon's business in the United Kingdom has been split into different portfolios that will be managed independently from one another. Management is of the opinion that the liability adequacy test should be disaggregated to a portfolio level to reflect this change in strategy. This change in the definition of portfolio for Aegon UK will better align with other reporting units in the Group where insurance contracts are grouped consistent with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

Substantial modification

The current accounting policy for Aegon's business in the United Kingdom is to derecognize insurance contracts when legal extinguishment occurs. As the annuity business, the traditional pension book and the new digital solutions

platform will be managed separately post-restructuring, Aegon has decided to change its accounting policy for Aegon UK to one that applies criteria from IAS 39 contract modification. Under these criteria a change should be significant enough to be considered an extinguishment of the existing contract and the issuance of a new contract. Aegon considers that this change in accounting policy is preferred as introducing a more sophisticated approach to contract modification is consistent with how the business will be managed post-restructuring. Furthermore, it will provide the user with information that is more relevant and that reliably reflects the economic substance of our transactions with our upgraded policyholders, as required by IFRS 4 and IAS 8, in relation to the nature of contract modifications.

Both changes in accounting policy, affecting Aegon UK, will be adopted retrospectively as of January 1, 2016 to coincide with the commencement of the restructuring in 2016. The changes are expected to decrease net income of the year 2015 approximately by between GBP 0.8 billion and GBP 0.9 billion as the two policy changes combined trigger a premium deficiency in 2015. This range also reflects the total impact on shareholders' equity at the date of adoption (January 1, 2016) as there is no impact on the income statement 2014 and 2013.

2.36 Future changes to segment reporting presentation

Based on the amended strategic plans as announced on January 13, 2016, Aegon has reconsidered its segment reporting. IFRS 8 requires operating segments to be defined in line with how the chief operating decision maker (CODM, i.e. Aegon's Executive Board) manages the business. Currently, Aegon has the following reportable segments: Americas, the Netherlands, United Kingdom, New Markets and Holdings and other activities. New Markets was established to aggregate Aegon's emerging businesses and global /

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European initiatives which is a combination of the following operating segments: Central & Eastern Europe, Asia, Spain & Portugal, Asset Management and VA Europe. Under IFRS 8 these operating segments were aggregated as one reportable segment due to their respective size.

Given that Aegon will change its managerial view to geographical areas and underlying businesses have developed since 2010, internal management reports will change as of 2016 accordingly. Alignment of segment reporting with those changes and developments will be put in place in 2016 reflecting Aegon's announcements related to its strategic plan. This means that the operating segments as described above will be presented on this basis and introduces separate presentation of the asset management business. The following will be reported from 2016 onwards:

- ⌚ Americas: one operating segment which covers business units in the United States, Brazil and Mexico, including any of the units' activities located outside these countries;
- ⌚ Europe: which covers the following operating segments: the Netherlands, United Kingdom (including VA Europe), Central & Eastern Europe, Spain & Portugal;
- ⌚ Asia: one operating segment which covers businesses operating in Hong Kong, Singapore, China, Japan, India and Indonesia including any of the units' activities located outside these countries;
- ⌚ Asset Management: one operating segment which covers business activities from Aegon Asset Management;
- ⌚ Holding and other activities: one operating segment which includes financing, reinsurance activities, employee and other administrative expenses of holding companies.

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

The change in segment reporting does not have an impact on the financial position, results of operations or cash flows of Aegon.

3 Critical accounting estimates and judgment in applying accounting policies

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

Valuation of assets and liabilities arising from life insurance contracts

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows (including investment returns). To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity.

Some insurance contracts without a guaranteed or fixed contractual term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets respectively, and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may require write-offs due to unrecoverability.

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Actuarial and economic assumptions

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are prescribed by the local regulator, market observable or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States and some of the smaller countries, is the annual long-term growth rate of the underlying assets. The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. For policies with account value guarantees based on equity market movements, a dynamic lapse assumption is utilized to reflect policyholder behavior based on whether the guarantee is in the money. Own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

Actuarial assumption and model updates

Assumptions are reviewed periodically, typically in the third quarter, based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions. Similarly, the models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology.

During 2015, Aegon implemented actuarial assumption and model updates resulting in a net EUR 181 million charge to income before tax (2014: EUR 352 million). Assumption updates resulted in a net EUR 24 million gain to income before tax. Model updates had an adverse impact on income before tax of EUR 205 million. Refer to note 5 Segment information for further details.

For 2015, Aegon kept its long-term equity market return assumption for the estimated gross profits on variable life and variable annuity products in the Americas at 8% (December 31, 2014: 8%). The long-term assumption for 10-year US Treasury yields remains at 4.25% and the uniform grading period was 10 years. Aegon's assumed returns for US separate account bond fund remains at 4% over the next 10 years and 6% thereafter. The 90-day Treasury yield was 0.16% at December 31, 2015, and is assumed to remain level for the next six months followed by a 9.5 year grade to 2.5%. On a quarterly basis, the estimated gross profits are updated for the difference between the estimated market return and the actual market return.

For 2014, Aegon kept its long-term equity market return assumption for the estimated gross profits on variable life and variable annuity products in the Americas at 8% (December 31, 2013: 8%). The long-term assumption for 10-year US Treasury yields remained at 4.25% and the uniform grading period was 10 years. Aegon's assumed returns for US separate account bond fund remained at 4% over the next 10 years and 6% thereafter. The 90-day Treasury yield was 0.04% at December 31, 2014, and was assumed to remain level for the next two years followed by an eight year grade to 2.5%. These assumptions have been set for the relevant reporting period. On a quarterly basis, the estimated gross profits are updated for the difference between the estimated market return and the actual market return.

In the third quarter of 2013, to reflect the low interest rate environment, Aegon lowered its long-term assumption for 10-year US Treasury yields by 50 basis points to 4.25% and extended the uniform grading period from 5 years to 10 years. Aegon also changed its assumed returns for US separate account bond fund to 4% over the next 10 years and 6% thereafter from its previous assumptions of

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4% over the next 5 years and 6% thereafter. In addition, Aegon changed its long-term equity market return assumption for the estimated gross profit in variable life and variable annuity products in the Americas from 9% to 8%. In total, these assumption changes led to a negative impact on earnings of EUR 405 million in the third quarter of 2013. Both the assumptions for the bond fund and that for the long-term equity market are gross assumptions from which asset management and policy fees are deducted to determine the policyholder return. The 90-day Treasury yield was 0.07% at December 31, 2013, and was assumed to remain level for the next two years followed by an eight year grade to 2.5%. These assumptions have been set for the relevant reporting period.

Sensitivity on variable annuities and variable life insurance products in the United States

A 1% decrease in the expected long-term equity growth rate with regard to Aegon's variable annuities and variable life insurance products in the United States would result in a decrease in DPAC and Voba balances and reserve strengthening of approximately EUR 147 million (2014: EUR 130 million). The DPAC and Voba balances for these products in the United States amounted to EUR 3.0 billion at December 31, 2015 (2014: EUR 2.6 billion).

A relative increase ranging from 5% to 10% to the mortality assumption, dependent on the block of business, would reduce net income by approximately EUR 103 million (2014: EUR 63 million). A relative 20% increase in the lapse rate assumption would increase net income by approximately EUR 76 million (2014: EUR 71 million).

Any reasonably possible changes in the other assumptions Aegon uses to determine EGP margins (i.e. maintenance expenses, inflation and disability) would reduce net income by less than EUR 37 million (per assumption change) (2014: EUR 32 million).

Determination of fair value and fair value hierarchy

The following is a description of Aegon's methods of determining fair value, and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- ⌚ In the principal market for the asset or liability; or
- ⌚ In the absence of a principal market, in the most advantageous market for the asset or liability.

Aegon uses the following hierarchy for measuring and disclosing of the fair value of assets and liabilities:

- ⌚ Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon can access at the measurement date;
- ⌚ Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- ⌚ Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. Aegon maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and therefore less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or it is determined that adjustments to transaction prices are necessary to measure the fair value of the instrument.

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The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities, the derivation of fair value is more judgmental. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an at arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the table headed "Effect of changes in significant unobservable assumptions to reasonably possible alternatives" in note 47 Fair Value. While Aegon believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize Aegon's fair value hierarchy, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modeled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

4 Financial risks**General**

As an insurance group, Aegon is exposed to a variety of risks. Aegon's largest exposures are to changes in financial markets (e.g. foreign currency, interest rate, credit and equity market risks) that affect the value of the investments, liabilities from products that Aegon sells, deferred expenses and value of business acquired. Other risks include insurance related risks, such as changes in mortality and morbidity, which are discussed in note 36 Insurance contracts. Aegon manages risk at local level where business is transacted, based on principles and policies established at the Group level. Aegon's integrated approach to risk management involves similar measurement of risk and scope of risk coverage to allow for aggregation of the Group's risk position.

To manage its risk exposure, Aegon has risk policies in place. Many of these policies are group-wide while others are specific to the unique situation of local businesses. The Group level policies limit the Group's exposure to major risks such as equity, interest rates, credit, and currency. The limits in these policies in aggregate remain within the Group's overall tolerance for risk and the Group's financial resources. Operating within this policy framework, Aegon employs risk management programs including asset liability management (ALM) processes and models and hedging programs (which are largely conducted via the use of derivatives). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but are also part of the Group's overall risk strategy.

Aegon operates a Derivative Use Policy to govern its usage of derivatives. These policies establish the control, authorization, execution and monitoring requirements of the usage of such instruments. In addition, these policies stipulate necessary mitigation of credit risk created through these derivatives management tools. For derivatives, credit risk is normally mitigated by requirements to post collateral via credit support annex agreements or through a central clearinghouse.

As part of its risk management programs, Aegon takes inventory of its current risk position across risk categories. Aegon also measures the sensitivity of net income and shareholders' equity under both deterministic and stochastic scenarios. Management uses the insight gained through these "what if?" scenarios to manage the Group's risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated as necessary.

Results of Aegon's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios. For each type of market risk, the analysis shows how net income and shareholders' equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon's accounting policies. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. The shock may also affect the measurement of assets and liabilities based on assumptions that are not observable in the market. For example, a shock in interest rates may lead to changes in the amortization schedule of DPAC or to increased impairment losses on equity investments. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analyses.

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The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on locked-in assumptions or on management's long-term expectations. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and shareholders' equity. Aegon has classified a significant part of its investment portfolio as available-for-sale, which is one of the main reasons why the economic shocks tested have a different impact on net income than on shareholders' equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked directly to the revaluation reserves in shareholders' equity, unless impaired. As a result, economic sensitivities predominantly impact shareholders' equity but leave net income unaffected. The effect of movements of the revaluation reserve on capitalization ratios and capital adequacy are minimal. Aegon's target ratio for the composition of its capital base is based on shareholders' equity excluding the revaluation reserve.

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

Concentration risk for financial risks are measured and managed at the following levels:

- ❧ Concentration per risk type: Risk exposures are measured per risk type as part of Aegon's internal economic framework. A risk tolerance framework is in place which sets risk limits per risk type and which promotes diversification across risk types;
- ❧ Concentration per counterparty: Risk exposure is measured and risk limits are in place per counterparty as part of the Counterparty Name Limit Policy; and
- ❧ Concentration per sector, geography and asset class: Aegon's investment strategy is translated in investment mandates for its internal and external asset managers. Through these investment mandates limits on sector, geography and asset class are set. Compliance monitoring of the investment mandates is done by the insurance operating companies.

Moreover, concentration of financial risks are measured in Aegon business planning cycle. As part of business planning, the resilience of Aegon's business strategy is tested in several extreme event scenarios. In the Depression and Inflation scenario, financial markets are stressed without assuming diversification across different market factors. As part of the Extreme Event Scenario testing, certain management actions are implemented when management deems this necessary.

Currency exchange rate risk

As an international group, Aegon is subject to foreign currency translation risk. Foreign currency exposure exists mainly when policies are denominated in currencies other than the issuer's functional currency. Currency risk in the investment portfolios backing insurance and investment liabilities is managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders' equity is required to satisfy regulatory

and self-imposed capital requirements. Therefore, currency exchange rate fluctuations will affect the level of shareholders' equity as a result of translation of subsidiaries into euro, the Group's presentation currency. Aegon holds the remainder of its capital base (perpetual capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of the country units. This balancing mitigates currency translation impacts on shareholders' equity and leverage ratios. Aegon does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As Aegon has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. Aegon may experience significant changes in net income and shareholders' equity because of these fluctuations.

Aegon operates a Currency Risk Policy which applies currency risk exposure limits both at Group and regional levels, and under which direct currency speculation or program trading by country units is not allowed unless explicit approval has been granted by the Group Risk and Capital Committee. Assets should be held in the functional currency of the business written or hedged back to that currency. Where this is not possible or practical, remaining currency exposure should be sufficiently documented and limits are placed on the total exposure at both group level and for individual country units.

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

	2015	2014	2013
Net income			
Americas (in USD)	(273)	784	540
The Netherlands (in EUR)	753	62	521
United Kingdom (in GBP)	158	143	65
New Markets (in EUR)	144	89	127
Equity in functional currency			
Americas (in USD)	17,731	21,387	19,891
The Netherlands (in EUR)	5,263	4,745	3,350
United Kingdom (in GBP)	3,598	3,781	2,845
New Markets (in EUR)	2,221	2,242	1,873

The exchange rates for US dollar and UK pound per euro for each of the last five year ends are set forth in the table below:

Closing rates	2015	2014	2013	2012	2011
USD	1.09	1.21	1.38	1.32	1.30
GBP	0.74	0.78	0.83	0.81	0.84

Aegon Group companies' foreign currency exposure from monetary assets and liabilities denominated in foreign currencies is not material.

The sensitivity analysis in the following table shows an estimate of the effect of movements in the exchange rates of Aegon's non-euro currencies relative to the euro on net income and shareholders' equity. The effects as included in the following table are due to the translation of subsidiaries, joint ventures and associates in the consolidated financial statements. The 2014 numbers in the sensitivity analysis of net income and shareholders' equity to translation risk have been restated as a result of a change in methodology in compiling the sensitivities. This year the methodology used for translation risk has been brought in line with the methodology used for calculating the other sensitivities. This restatement had no impact on net income, shareholders' equity, total assets, total liabilities or earnings per share.

Sensitivity analysis of net income and shareholders' equity to translation risk

Movement of markets ¹⁾

Estimated approximate effects on net income
Estimated approximate effects on shareholders' equity

equity

2015

Increase by 15% of USD currencies relative to the euro	69	2,181
Increase by 15% of GBP currencies relative to the euro	38	766
Increase by 15% of other non-euro currencies relative to the euro	111	3,040
Decrease by 15% of USD currencies relative to the euro	(49)	(1,553)
Decrease by 15% of GBP currencies relative to the euro	(27)	(538)
Decrease by 15% of other non-euro currencies relative to the euro	(77)	(2,155)

2014

Increase by 15% of USD currencies relative to the euro	83	2,038
Increase by 15% of GBP currencies relative to the euro	42	771
Increase by 15% of other non-euro currencies relative to the euro	116	3,143
Decrease by 15% of USD currencies relative to the euro	(59)	(1,428)
Decrease by 15% of GBP currencies relative to the euro	(32)	(544)
Decrease by 15% of other non-euro currencies relative to the euro	(81)	(2,202)

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

² For the sensitivity analysis the book loss of Canada in 2015 has not been taken into account.

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

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

During periods of sustained low interest rates, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided on policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Mortgage loans and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to borrow at lower interest rates and Aegon may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, net income declines as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

Aegon manages interest rate risk closely, taking into account all of the complexity regarding policyholder behavior and management action. Aegon employs sophisticated interest rate measurement techniques and actively uses derivatives and other risk mitigation tools to closely manage its interest rate risk exposure. Aegon operates an Interest Rate Risk policy that limits the amount of interest rate risk to which the Group is exposed. All derivative use is governed by Aegon's Derivative Use Policy. A detailed description on the use of derivatives within Aegon is included in note 24 Derivatives.

The following table shows interest rates at the end of each of the last five years.

	2015	2014	2013	2012	2011
3-month US LIBOR	0.61%	0.26%	0.25%	0.31%	0.58%
3-month EURIBOR	(0.13%)	0.08%	0.29%	0.19%	1.36%
10-year US Treasury	2.27%	2.17%	3.03%	1.76%	1.88%
10-year Dutch government	0.79%	0.68%	2.23%	1.50%	2.19%

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curves on net income and shareholders' equity arising from the impact on general account investments and offset due to liabilities from insurance and investment contracts. In general, increases in interest rates are beneficial to Aegon. However,

timing and valuation differences between assets and liabilities may cause short-term reductions in net income or solvency ratios as rates rise. The rising interest rates would also cause the fair value of the available-for-sale bond portfolio to decline and the level of unrealized gains could become too low to support recoverability of the full deferred tax asset triggering an allowance charge to income. The offsetting economic gain on the insurance and investment contracts is however not fully reflected in the sensitivities because many of these liabilities are not measured at fair value. Over time, the medium-term reduction in net income due to rising interest rates would be offset by higher net income in later years, all else being equal. Therefore, higher interest rates are not considered a long-term risk to the Group. However, a long sustained period of low interest rates will erode net income due to lower returns earned on reinvestments.

	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
Parallel movement of yield curve		
2015		
Shift up 100 basis points	390	(4,428)
Shift down 100 basis points	(480)	2,559
2014		
Shift up 100 basis points	456	(4,010)
Shift down 100 basis points	(568)	2,476

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Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon typically bears the risk for investment performance which is equal to the return of principal and interest. Aegon is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy, downturns in real estate values, operational failure and fraud. During financial downturns, Aegon can incur defaults or other reductions in the value of these securities and loans, which could have a materially adverse effect on Aegon's business, results of operations and financial condition.

The table that follows shows the Group's maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 49 Transfer of financial assets for further information on collateral given, which may expose the Group to credit risk.

	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agree- ments	Other	Surplus collateral (or Total collateral	Net exposure
2015									
Debt securities - carried at fair value	107,390	-	-	470	-	-	-	470	106,920
Money market and other short-term investments - carried at fair value	7,444	-	984	-	-	-	-	984	6,460
Mortgage loans - carried at amortized cost	32,899	2,070	-	1,387	45,244	-	1	48,702	15,644
Private loans - carried at amortized cost	2,847	-	-	-	-	-	-	-	-
Other loans - carried at amortized cost	2,517	-	-	-	-	-	2,193	2,193	1,377
Other financial assets - carried at	3,932	-	-	-	-	-	-	-	-

fair value										
Derivatives	10,643	1,510	696	-	-	7,972	-	10,178	58	523
Reinsurance										
assets	11,193	-	5,345	178	-	-	-	5,523	-	5,670
At December 31	178,864	3,580	7,025	2,035	45,244	7,972	2,193	68,049	17,079	127,894

	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agree- ments	Other	Total collateral	Surplus collateral (or overcollate- ralization)	Net exposure
2014										
Debt securities - carried at fair value	103,324	-	-	500	-	-	-	500	-	102,824
Money market and other short-term investments - carried at fair value	7,299	-	874	-	-	-	-	874	-	6,425
Mortgage loans - carried at amortized cost	31,729	1,911	-	1,688	41,337	-	1	44,938	13,933	725
Private loans - carried at amortized cost	2,058	-	-	-	-	-	-	-	-	2,058
Other loans - carried at amortized cost	2,516	-	-	-	-	-	2,018	2,018	1,305	1,803
Other financial assets - carried at fair value	3,380	-	-	-	-	-	-	-	-	3,380
Derivatives	27,183	3,932	356	-	-	22,207	-	26,495	33	721
Reinsurance assets	9,494	-	4,709	170	-	-	-	4,879	-	4,615
At December 31	186,983	5,843	5,939	2,358	41,337	22,207	2,019	79,704	15,271	122,551

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Several bonds in Aegon USA's portfolio are insured by monoline insurers. Further information on the monoline insurers is provided in the section Additional information on credit risk, unrealized losses and impairments.

Money market and short-term investments

The collateral reported for the money market and short-term investments are related to tri-party repurchase agreements (repos). Within tri-party repos Aegon invests under short-term reverse repurchase agreements and the counterparty posts collateral to a third party custodian. The collateral posted is typically high-quality, short-term securities and is only accessible for or available to Aegon in the event the counterparty defaults.

Mortgage loans

The real estate collateral for mortgages includes both residential and commercial properties. The collateral for commercial mortgage loans in Aegon Americas is measured at fair value. At a minimum on an annual basis, a fair value is estimated for each individual real estate property that has been pledged as collateral. When a loan is originally provided, an external appraisal is obtained to estimate the value of the property. In subsequent years, the value is typically estimated internally using various professionally accepted valuation methodologies. Internal appraisals are performed by qualified, professionally accredited personnel. International valuation standards are used and the most significant assumptions made during the valuation of real estate are the current cost of reproducing or replacing the property, the value that the property's net earning power will support, and the value indicated by recent sales of comparable properties. Valuations are primarily supported by market evidence. For Aegon the Netherlands, collateral for the residential mortgages is measured as the foreclosure value which is indexed periodically.

Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

A substantial part of Aegon's Dutch residential mortgage loan portfolio benefits from guarantees by a Dutch government-backed trust (Stichting Waarborgfonds Eigen Woning) through the Dutch Mortgage loan Guarantee program (NHG). These guarantees cover all principal losses, missed interest payments and foreclosure costs incurred upon termination and settlement of defaulted mortgage loans when lender-specific terms and conditions of the guarantee are met. When not fully met, the trust may pay claims in part or in full, depending on the severity of the breach of terms and conditions. For each specific loan, the guarantee amortizes in line with an equivalent annuity mortgage loan. When the remaining loan balance at default does not exceed the amortized guarantee, it covers the full loss under its terms and conditions. Any loan balance in excess of this decreasing guarantee profile serves as a first loss position for the lender. For NHG-backed mortgage loans originated after January 1st 2014, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

Derivatives

The master netting agreements column in the table relates to derivative liability positions which are used in Aegon's credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

Reinsurance assets

The collateral related to the reinsurance assets include assets in trust that are held by the reinsurer for the benefit of Aegon. The assets in trust can be accessed to pay policyholder benefits in the event the reinsurers fail to perform under the terms of their contract. Further information on the related reinsurance transactions is included in note 27 Reinsurance assets.

Other loans

The collateral included in the other column represents the policyholders account value for policy loans. The excess of the account value over the loan value is included in the surplus collateral column. For further information on the policy loans refer to note 22.1 Financial assets, excluding derivatives.

The total collateral includes both under- and over-collateralized positions. To present a net exposure of credit risk, the over-collateralization, which is shown in the surplus collateral column, is extracted from the total collateral.

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Credit risk management

Aegon manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. Normally, Aegon mitigates credit risk in derivative contracts by entering into credit support agreement, where practical, and in ISDA master netting agreements for most of Aegon's legal entities to facilitate Aegon's right to offset credit risk exposure. Main counterparties to these transactions are investment banks which are typically rated A or higher. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of derivative trades, comprised mostly of interest rate swaps, equity swaps, currency swaps, credit swaps and other bilateral exposure derivatives. Collateral received is mainly cash (USD and EUR). The credit support agreements that outline the acceptable collateral require high quality instruments to be posted. In 2015 and 2014, there was no default with any derivatives counterparty. The credit risk associated with financial assets subject to a master netting agreement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realized. New interest rate swap transactions in the US are traded via Central Clearing Houses as required by the Dodd-Frank act. Credit risk in these transactions is mitigated through posting of initial and variation margins.

Aegon may also mitigate credit risk in reinsurance contracts by including downgrade clauses that allow the recapture of business, retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, Aegon employs deterministic and stochastic credit risk modeling in order to assess the Group's credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

Aegon operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are placed on the exposure at both group level and individual country units. The limits also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon's internal rating of the counterparty. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit for the country unit and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon's Group Risk and Capital Committee (GRCC). The policy is reviewed regularly.

At December 31, 2015 there was one violation of the Credit Name Limit Policy at Group level. This violation will be resolved overtime by reducing the exposure. At December 31, 2014 there were three violations of the Credit Name Limit Policy at Group level. These violations have been resolved in 2015 through reducing the exposure.

At December 31, 2015 Aegon's largest corporate credit exposures are to American United Life Insurance Company, Berkshire Hathaway, General Electric, HSBC and JP Morgan. Aegon had large sovereign exposures, the largest being in the USA, the Netherlands, Germany, UK and Austria. Highly rated sovereign assets, that is AAA rated by all three agencies, and sovereign exposure domestically issued and owned in local currency are excluded from the Credit Name Limit Policy.

Aegon group level long-term counterparty exposure limits are as follows:

Group limit

Amounts in EUR million

	2015	2014
AAA	900	900
AA	900	900
A	675	675
BBB	450	450
BB	250	250
B	125	125
CCC or lower	50	50

Credit rating

The ratings distribution of general account portfolios of Aegon's major reporting units, excluding reinsurance assets, are presented in the table that follows, organized by rating category and split by assets that are valued at fair value and assets that are valued at amortized cost. Aegon uses a composite rating based on a combination of the ratings of S&P, Moody's, Fitch, Internal and National Association of Insurance Commissioners (NAIC). The rating used is the lower of the external rating and the internal rating.

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Credit rating general account investments, excluding reinsurance assets 2015	Americas		The Netherlands		United Kingdom		New Markets		Total 2015 ¹⁾			
	Amor- tized cost	Fair value	Amor- tized cost	Amor- Fairtized value cost	Fair value	Amor- tized cost	Fair value	Amor- tized cost	Fair value	Total carrying value		
	AAA	1,528	18,643	1,489	13,361	-	736	-	796	3,017	33,556	36,573
	AA	3,239	5,249	96	4,420	-	6,172	-	396	3,335	16,236	19,571
	A	2,813	24,525	202	2,054	-	3,654	90	1,651	3,105	31,901	35,006
	BBB	212	21,179	459	3,309	-	2,588	54	2,152	725	29,229	29,954
	BB	52	2,063	12	201	-	187	11	436	75	2,887	2,962
	B	-	1,198	-	26	-	2	5	56	5	1,281	1,286
	CCC or lower	-	969	-	-	-	-	4	22	4	991	995
	Assets not rated	2,195	4,203	25,229	7,849	-	598	102	140	27,613	13,133	40,746
Total	10,038	78,029	27,487	31,220	-	13,937	267	5,649	37,880	129,214	167,093	
Past due and / or impaired assets	23	1,479	520	119	-	1	154	56	697	1,655	2,352	
At December 31	10,062	79,508	28,007	31,339	-	13,938	421	5,705	38,577	130,868	169,445	

¹⁾ Includes investments of Holding and other activities.

	Americas		The Netherlands		United Kingdom		New Markets		Total 2014 ¹⁾		
Credit rating											
general account											
investments,											
excluding reinsurance assets 2014	Amor- tized cost	Fair value	Amor- tized cost	Amor- Fairtized value cost	Fair value	Amor- tized cost	Fair value	Amor- tized cost	Fair value	Total carrying value	
AAA	1,418	17,059	866	14,729	-	651	-	617	2,284	33,163	35,447
AA	3,281	6,184	362	3,431	-	5,413	-	310	3,643	15,321	18,964
A	2,104	22,738	238	2,328	-	4,231	55	1,314	2,397	30,624	33,021
BBB	194	20,940	185	2,558	-	2,221	105	1,397	483	27,117	27,600
BB	131	2,016	-	186	-	149	5	430	137	2,781	2,918
B	9	1,297	-	-	-	3	5	40	14	1,340	1,354
CCC or lower	-	861	-	18	-	-	3	12	3	891	894
Assets not rated	2,021	3,462	24,809	24,156	-	570	153	175	26,995	29,383	56,378
Total	9,159	74,557	26,460	47,406	-	13,238	326	4,294	35,956	140,621	176,576

Past due and / or impaired assets	28	1,540	592	122	-	2	161	23	782	1,687	2,469
At December 31	9,187	76,097	27,052	47,528	-	13,240	487	4,318	36,738	142,308	179,045

¹ Includes investments of Holding and other activities.

The following table shows the credit quality of the gross positions in the statement of financial position for general account reinsurance assets specifically:

	Carrying value 2015	Carrying value 2014
AAA	7	7
AA	8,033	2,376
A	2,771	6,768
Below A	14	14
Not rated	368	329
At December 31	11,193	9,494

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Credit risk concentration

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

Credit risk concentrations	debt securities and money market investments	2015					Total 2015 ¹⁾	Of which past due and / or impaired assets
			Americas	The Netherlands	United Kingdom	New Markets		
	Residential mortgage-backed securities (RMBSs)		4,326	757	21	62	5,167	1,355
	Commercial mortgage-backed securities (CMBSs)		4,970	78	590	516	6,153	16
	Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans		959	2,055	-	28	3,041	7
	ABSs - Other		2,231	342	2,018	282	4,873	60
	Financial - Banking		7,617	1,578	1,321	868	11,385	4
	Financial - Other		10,787	222	920	623	12,570	1
	Industrial		27,349	2,778	2,315	1,995	34,437	31
	Utility		4,450	546	977	250	6,223	-
	Sovereign exposure		9,794	15,015	5,178	997	30,984	46
	At December 31		72,484	23,370	13,341	5,621	114,834	1,521

¹⁾ Includes investments of Holding and other activities.

Credit risk concentrations	debt securities and money market investments	2014					Total 2014 ¹⁾	Of which past due and / or impaired assets
			Americas	The Netherlands	United Kingdom	New Markets		
			4,584	932	21	64	5,601	1,405

Residential mortgage-backed securities (RMBSs)						
Commercial mortgage-backed securities (CMBSs)	5,178	118	434	312	6,042	12
Asset-backed securities (ABSs) - CDOs backed by ABS, Corp.						
bonds, Bank loans	784	1,859	-	4	2,647	8
ABSs - Other	2,229	440	2,124	165	4,957	57
Financial - Banking	7,241	753	1,405	669	10,163	9
Financial - Other	10,423	184	1,072	415	12,106	3
Industrial	26,815	2,747	2,398	1,310	33,270	16
Utility	4,041	615	1,010	164	5,831	-
Sovereign exposure	8,811	15,602	4,415	1,177	30,005	37
At December 31	70,105	23,250	12,880	4,280	110,622	1,547

¹ Includes investments of Holding and other activities.

Credit risk concentrations

mortgage loans

	Americas	The Netherlands	United Kingdom	New Markets	Total 2015 ¹⁾	Of which past due and / or impaired assets
Agricultural	101	-	-	-	101	10
Apartment	2,796	-	-	-	2,796	-
Industrial	837	-	-	-	837	-
Office	1,880	12	-	-	1,892	6
Retail	1,896	13	-	-	1,909	9
Other commercial	351	35	-	-	386	2
Residential	26	24,720	-	232	24,978	625
At December 31	7,888	24,779	-	232	32,899	653

¹ Includes investments of Holding and other activities.

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						Of which
						past due and / or impaired assets
Credit risk concentrations		The Americas	United Kingdom	New Markets	Total 2014 ¹⁾	
mortgage loans						
Agricultural	86	-	-	-	86	9
Apartment	2,030	-	-	-	2,030	-
Industrial	857	-	-	-	857	2
Office	2,096	14	-	-	2,110	10
Retail	1,800	-	-	-	1,800	7
Other commercial	297	53	-	-	351	4
Residential	26	24,186	-	285	24,496	699
At December 31	7,192	24,253	-	285	31,729	731

¹ Includes investments of Holding and other activities.

The fair value of Aegon Americas commercial and agricultural mortgage loan portfolio as per December 31, 2015, amounted to EUR 8,202 million (2014: EUR 7,622 million). The loan to value (LTV) amounted to approximately 55% (2014: 57%). Of the portfolio 0.07% (2014: 0.23%) is in delinquency (defined as 60 days in arrears). In 2015, Aegon Americas recognized EUR 5 million impairments (net of recoveries) (2014: EUR 8 million) on this portfolio. In 2015, Aegon Americas foreclosed upon, or recovered EUR 23 million (2014: EUR 16 million) of real estate. The 2015 additional impairments associated with these loans at the time of foreclosure amounted to EUR 3 million (2014: impairment recoveries of EUR 1 million).

The fair value of Aegon the Netherlands mortgage loan portfolio as per December 31, 2015, amounted to EUR 29,181 million (2014: EUR 28,758 million). The LTV amounted to approximately 90% (2014: 95%). A significant part of the portfolio (60%; 2014: 60%) is government guaranteed. Of the portfolio, 0.8% (2014: 0.9%) is in delinquency (defined as 60 days in arrears). Impairments in 2015 amounted to EUR 9 million (2014: EUR 4 million). During the last ten years defaults of the portfolio have been 5 basis points on average.

Unconsolidated structured entities

Aegon's investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs and investment funds are presented in the line item 'Investments' of the statement of financial position. Aegon's interests in these unconsolidated structured entities can be characterized as basic interests, Aegon does not have loans, derivatives, guarantees or other interests related to these investments. Any existing commitments such as future purchases of interests in investment funds are disclosed in note 48 Commitments and contingencies.

For debt instruments, specifically for RMBSs, CMBSs and ABSs, the maximum exposure to loss is equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon invests primarily in senior notes of RMBSs, CMBSs and ABSs. Additional

information on credit ratings for Aegon's investments in RMBSs, CMBSs and ABSs are disclosed in the sections that describe per category of debt securities the composition and impairment assessments. The composition of the RMBSs, CMBSs and ABSs portfolios of Aegon are widely dispersed looking at the individual amount per entity, therefore Aegon only has non-controlling interests in individual unconsolidated structured entities. Furthermore these investments are not originated by Aegon.

Except for commitments as noted in note 48 Commitments and contingencies, Aegon did not provide, nor is required to provide financial or other support to unconsolidated structured entities. Nor does Aegon have intentions to provide financial or other support to unconsolidated structured entities in which Aegon has an interest or previously had an interest.

For RMBSs, CMBSs and ABSs in which Aegon has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflects the carrying values recognized in the statement of financial position of Aegon's interests in RMBSs, CMBSs and ABSs.

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	Total income for the year ended December 31, 2015			December 31, 2015
		Total gains and losses on sale of assets	Total	Investments
2015	Interest income			
Residential mortgage-backed securities	241	(42)	198	5,167
Commercial mortgage-backed securities	221	(12)	208	6,153
Asset-backed securities	63	7	70	3,041
ABSs - Other	102	326	428	4,873
Total	626	278	905	19,234

	Total income for the year ended December 31, 2014			December 31, 2014
		Total gains and losses on sale of assets	Total	Investments
2014	Interest income			
Residential mortgage-backed securities	236	181	417	5,601
Commercial mortgage-backed securities	220	191	411	6,042
Asset-backed securities	47	3	50	2,647
ABSs - Other	170	547	717	4,957
Total	673	922	1,594	19,248

Monoline insurers

About EUR 0.5 billion of the bonds in Aegon USA's portfolio are insured by monoline insurers (2014: EUR 0.5 billion), of which EUR 265 million of bonds (2014: EUR 261 million) in the EUR 0.9 billion subprime portfolio (2014: EUR 0.9 billion). Expected claims against the monolines amounted to EUR 72 million (2014: EUR 68 million), although an insolvency by one of the monolines could create significant market price volatility for the affected holdings.

The following table breaks down bonds in Aegon USA's portfolio that are insured by monoline insurers.

	2015		2014	
Bonds insured by monoline insurers	Amortized cost	Fair value	Amortized cost	Fair value
AAA	2	3	4	4

AA	7	7	9	9
< AA	464	446	497	475
At December 31	473	456	510	488

The rating that is provided by the rating agencies on these guaranteed bonds is the higher of the guarantor's rating or the rating of the underlying bond itself.

Of the EUR 473 million (2014: EUR 510 million) indirect exposure on the monoline insurers, 38% relates to Municipal Bond Insurance Association, Inc. (MBIA), 14% to Ambac Financial Group, inc. (AMBAC), and 38% to Financial Security Assurance Inc. (FSA) (2014: 40% related to MBIA, 14% to AMBAC, and 36% to FSA).

At the end of 2015, Aegon USA had one indirect exposure of EUR 24 million via wrapped bonds via holdings in monoline insurers and derivative counterparty exposure where monoline insurers are Aegon's counterparty (2014: EUR 22 million).

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The amortized cost and fair value of debt securities, money market investments and other, included in Aegon's available-for-sale (AFS) portfolios, are as follows as of December 31, 2015, and December 31, 2014:

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
2015						
Debt securities and money market instruments						
United States government	8,351	866	(140)	9,077	6,266	2,811
Dutch government	4,245	822	-	5,068	5,049	19
Other government	14,308	2,297	(18)	16,587	15,497	1,090
Mortgage-backed securities	9,991	437	(163)	10,265	6,239	4,025
Asset-backed securities	8,432	548	(128)	8,852	5,171	3,682
Corporate	52,585	4,066	(1,348)	55,302	40,336	14,967
Money market investments	7,141	-	-	7,141	7,141	-
Other	1,120	232	(56)	1,297	1,234	63
Total	106,173	9,268	(1,852)	113,589	86,932	26,657
Of which held by Aegon Americas, NL and UK	100,715	9,029	(1,766)	107,979	83,616	24,363
	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
2014						
Debt securities and money market instruments						
United States government	6,731	1,092	(22)	7,801	6,693	1,108
Dutch government	4,705	1,025	(1)	5,729	5,707	23
Other government	13,439	2,559	(29)	15,969	15,510	459

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Mortgage-backed securities	10,017	637	(124)	10,530	8,559	1,971
Asset-backed securities	8,011	696	(123)	8,584	5,672	2,912
Corporate	47,561	5,758	(435)	52,884	46,566	6,318
Money market investments	6,799	-	-	6,799	6,799	-
Other	1,136	204	(30)	1,310	1,140	170
Total	98,399	11,971	(764)	109,606	96,646	12,960
Of which held by Aegon Americas, NL and UK	94,409	11,656	(743)	105,323	93,142	12,181

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Unrealized bond losses by sector

The composition by industry category of Aegon's available-for-sale (AFS) debt securities and money market investments in an unrealized loss position at December 31, 2015, and December 31, 2014, is presented in the following table:

Unrealized losses - debt securities and money market investments	December 31, 2015		December 31, 2014	
	Carrying value of instruments with unrealized losses	Gross unrealized losses	Carrying value of instruments with unrealized losses	Gross unrealized losses
Residential mortgage-backed securities (RMBSs)	1,823	(155)	1,249	(145)
Commercial mortgage-backed securities (CMBSs)	2,152	(39)	987	(18)
Asset-backed securities (ABSs) - CDOs backed by ABS,				
Corp. bonds, Bank loans	1,710	(38)	1,552	(54)
ABSs - Other	1,501	(47)	980	(26)
Financial Industry - Banking	1,919	(169)	1,228	(179)
Financial Industry - Insurance	678	(43)	242	(15)
Financial Industry - Other	711	(31)	325	(15)
Industrial	9,036	(976)	3,835	(197)
Utility	1,019	(57)	239	(11)
Sovereign	3,753	(154)	1,375	(51)
Total held by Aegon Americas, NL and UK	24,300	(1,710)	12,011	(713)
Held by other segments	2,294	(86)	779	(21)
Total	26,594	(1,796)	12,790	(734)

As of December 31, 2015, there are EUR 8,797 million (December 31, 2014: EUR 11,452 million) of gross unrealized gains and EUR 1,710 million (December 31, 2014: EUR 713 million) of gross unrealized losses in the AFS debt securities portfolio of Aegon Americas, Aegon the Netherlands and Aegon UK. One issuer represents more than 4% of the total unrealized loss position. The unrealized loss is EUR 140 million and relates to securities issued by the government of the United States of America.

Financial and credit market conditions were mixed over the course of 2015. Developed-world growth remains positive, but generally below potential, despite policy-makers' efforts to generate a strong recovery. Emerging Market growth, including China, has fallen, generating weak market returns in those countries. US equity markets had modest

returns, while global markets were mixed. The US dollar strengthened materially against most currencies. In December, the US Federal Reserve ended its zero interest rate policy and tightened the Fed Funds rate by 25 basis points. Longer term US Treasury rates, though, were only modestly higher for the year. Corporate default rates have remained relatively low due largely to readily available access to funding and strong corporate balance sheet fundamentals. However, credit spreads widened significantly during 2015, reflecting credit concerns in the energy, metals and mining sector and general risk aversion. Oil prices fell to multi-year lows late 2015. The increase in US Treasury rates, coupled with wider spreads, caused the market values of fixed income holdings to decrease relative to their carrying values.

Impairment of financial assets

Aegon regularly monitors industry sectors and individual debt securities for indicators of impairment. These indicators may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations by the issuer, 5) high probability of bankruptcy of the issuer, or 6) internationally recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that not all amounts due (both principal and interest) will be collected as contractually scheduled.

In the sections below a description is provided on the composition of the categories of debt securities and money market investments. Individual issuers rated below investment grade in any sector which have unrealized loss positions greater than EUR 25 million are disclosed separately. Furthermore, quality ratings of investment portfolios are based on a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon's internal rating of the counterparty.

Residential mortgage-backed securities

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 5,011 million (December 31, 2014: EUR 5,449 million) of residential mortgage-backed securities available-for-sale (RMBS), of which EUR 4,233 million (December 31, 2014: EUR 4,499 million) is held by Aegon Americas, EUR 757 million (December 31, 2014: EUR 932 million) by Aegon the Netherlands, and EUR 21 million

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(December 31, 2014: EUR 21 million) by Aegon UK. Residential mortgage-backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit characteristics and are pooled together and sold in tranches. The following table shows the breakdown of Aegon USA's RMBS available-for-sale portfolio. Additionally, Aegon USA has investments in RMBS of EUR 93 million (December 31, 2014: EUR 88 million), which are classified as fair value through profit or loss.

AFS RMBS by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
GSE guaranteed	1,471	-	-	-	-	1,471	1,493
Prime jumbo	-	1	1	13	199	213	224
Alt-A	-	-	30	3	476	509	596
Negative amortization floaters	-	-	-	1	781	782	807
Reverse mortgage RMBS	-	-	-	190	46	237	171
Subprime mortgage ¹⁾	1	43	119	79	600	843	908
Manufactured housing ¹⁾	-	-	1	15	19	35	33
Other housing ¹⁾	-	-	-	-	-	-	-
At December 31, 2015	1,472	44	151	301	2,121	4,090	4,232
Of which insured	-	-	30	-	15	45	49

¹ Reported as part of asset-backed securities in the table on page 170.

AFS RMBS by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
GSE guaranteed	1,564	-	-	-	-	1,564	1,615
Prime jumbo	1	1	1	14	221	238	244
Alt-A	-	-	31	3	489	523	632
Negative amortization floaters	-	-	-	15	745	760	850
Reverse mortgage RMBS	-	-	-	141	102	243	175
Subprime mortgage ¹⁾	6	57	168	96	536	864	944
Manufactured housing ¹⁾	-	-	1	14	21	36	37
Other housing ¹⁾	2	-	-	-	-	2	2
At December 31, 2014	1,573	58	201	283	2,114	4,230	4,499
Of which insured	-	-	146	1	224	372	355

¹ Reported as part of asset-backed securities in the table on page 170.

RMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and stress-case scenarios. Aegon's RMBS asset specialists utilize widely recognized industry modeling

software to perform a loan-by-loan, bottom-up approach to modeling. Key assumptions used in the models are projected defaults, loss severities, and prepayments. Each of these key assumptions varies greatly based on the significantly diverse characteristics of the current collateral pool for each security. Loan-to-value, loan size, and borrower credit history are some of the key characteristics used to determine the level of assumption that is utilized. Defaults were estimated by identifying the loans that are in various delinquency buckets and defaulting a certain percentage of them over the near-term and long-term. Assumed defaults on delinquent loans are dependent on the specific security's collateral attributes and historical performance.

Loss severity assumptions were determined by obtaining historical rates from broader market data and by adjusting those rates for vintage, specific pool performance, collateral type, mortgage insurance and estimated loan modifications. Prepayments were estimated by examining historical averages of prepayment activity on the underlying collateral. Quantitative ranges of significant assumptions within Aegon's modeling process for Prime Jumbo, Alt-A and Negative Amortization RMBS are as follows: prepayment assumptions range from approximately 0.5% to 35% with a weighted average of approximately 5.2% (December 31, 2014: 4.8%), assumed defaults on delinquent loans range from 53% to 100% with a weighted average of approximately 85.8% (December 31, 2014: 86.3%), assumed defaults on current loans are dependent on the specific security's collateral attributes and historical performance, while loss severity assumptions range from approximately 13.9% to 75%, with a weighted average of approximately 55.7% (December 31, 2014: 54.7%). Additionally, quantitative ranges of significant assumptions within Aegon's modeling process for the RMBS subprime mortgage

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portfolio are as follows: prepayment assumptions range from approximately 3% to 16% with a weighted average of approximately 6.1% (December 31, 2014: 6.2%), assumed defaults on delinquent loans range from 68% to 100% with a weighted average of approximately 89.6% (December 31, 2014: 89.9%), assumed defaults on current loans are dependent on the specific security's collateral attributes and historical performance, while loss severity assumptions range from approximately 20% to 103%, with a weighted average of approximately 72.1% (December 31, 2014: 73.3%).

Once the entire pool is modeled, the results are closely analyzed by Aegon's asset specialists to determine whether or not Aegon's particular tranche or holding is at risk for not collecting all contractual cash flows taking into account the seniority and other terms of the tranches held. Aegon impairs its particular tranche to fair value where it would not be able to receive all contractual cash flows.

The total gross unrealized loss on AFS RMBS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 155 million (December 31, 2014: 145 million), of which EUR 147 million (December 31, 2014: EUR 142 million) relates to positions of Aegon USA, and the total net unrealized gain on available-for-sale RMBS was EUR 159 million (December 31, 2014: EUR 309 million), including a EUR 145 million (December 31, 2014: EUR 269 million) net unrealized gain relating to positions of Aegon USA. The housing market in the United States has continued to improve as evidenced by rising home prices and sales volume. The pace of improvement has slowed considerably from the rapid pace seen post-financial crisis, and is expected to continue to moderate in the coming years. However, the positive trends in the housing market have led to improvements in borrower delinquencies and prepayment rates as well as liquidation timelines. Loss severities on liquidated properties remain elevated for subprime loans but are starting to show signs of improvement for other RMBS sectors. The improving housing market and underlying loan credit performance has led to credit spreads tightening across the asset class for the past few years, but the upside going forward is limited.

There are no individual issuers rated below investment grade in this RMBS sector which have unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA's RMBS instruments (AFS and FVTPL) were determined as follows:

	Level II	Level III	Total 2015	Level II	Level III	Total 2014
RMBS	4,068	258	4,326	4,320	264	4,584
Commercial mortgage-backed securities						

As of December 31, 2015, Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 5,636 million (December 31, 2014: EUR 5,701 million) of AFS commercial mortgage-backed securities (CMBS), of which EUR 4,969 million (December 31, 2014: EUR 5,149 million) is held by Aegon USA, EUR 590 million (December 31, 2014: EUR 434 million) by Aegon UK and EUR 78 million (December 31, 2014: EUR 118 million) by Aegon the Netherlands. CMBS are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The company's

CMBS include conduit, large loan, single borrower, commercial real estate collateralized debt obligations (CRE CDOs), collateralized debt obligations (CDOs), government agency, and franchise loan receivable trusts.

The total gross unrealized loss on AFS CMBS of Aegon Americas amounted to EUR 39 million as of December 31, 2015 (December 31, 2014: EUR 18 million). The total net unrealized gain on the available-for-sale CMBS as of December 31, 2015, is EUR 181 million (December 31, 2014: EUR 275 million), of which EUR 61 million (December 31, 2014: EUR 167 million) relates to positions of Aegon USA, followed by Aegon UK at EUR 119 million and Aegon the Netherlands at EUR 1 million. Throughout 2015, CMBS fundamentals continued to improve as the pace of credit deterioration moderated, commercial real estate valuations continued to improve and there was a greater availability of financing. Liquidity has improved within the CMBS market; however, credit spreads on many legacy subordinate CMBS tranches remain at wide levels.

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The tables below summarize the credit quality of Aegon USA's AFS CMBS portfolio. Additionally, Aegon USA has investments in CMBS of EUR 1 million (December 31, 2014: EUR 29 million), which are classified as fair value through profit or loss.

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

CMBS by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
CMBS	4,038	548	103	119	173	4,981	5,149
At December 31, 2014	4,038	548	103	119	173	4,981	5,149

CMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and several stress-case scenarios by Aegon's internal CMBS asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach. For non-conduit securities, a CMBS asset specialist works closely with Aegon's real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur.

Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on its tranches. As the remaining unrealized losses in the CMBS portfolio relate to holdings where Aegon expects to receive full principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2015.

There are no individual issuers rated below investment grade in the CMBS sector which have unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA's CMBS instruments (AFS and FVTPL) were determined as follows:

	Level II	Level III	Total 2015	Level II	Level III	Total 2014
CMBS	4,910	60	4,970	5,119	59	5,178
Asset-backed securities						

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 7,213 million (December 31, 2014: EUR 7,420 million) of AFS ABS instruments of which EUR 3,178 million (December 31, 2014: EUR 2,997 million) is held by Aegon USA, EUR 2,396 million (December 31, 2014: EUR 2,300 million) by Aegon the Netherlands and EUR 1,639 million (December 31, 2014: EUR 2,124 million) by Aegon UK. Additionally, Aegon Americas has investments in ABS of EUR 12 million (December 31, 2014: EUR 16 million), which are classified as fair value through profit or loss. ABS are securitizations of underlying pools of credit card receivables, auto financing loans, small business loans, bank loans, and other receivables. The underlying assets of the asset backed securities have been pooled together and sold in tranches with varying credit ratings.

The total gross unrealized loss on AFS ABS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 85 million as of December 31, 2015 (December 31, 2014: EUR 80 million). Aegon USA has EUR 55 million (December 31, 2014: EUR 38 million) of this gross unrealized loss and Aegon the Netherlands EUR 29 million (December 31, 2014: EUR 41 million). The stronger financial and economic conditions have helped stabilize in the US and Europe, the performance of the underlying collateral backing many of these securities. The European ABS market had a reasonable strong start of the year. Towards the mid-part of 2015, the sentiment started to turn due to macroeconomic concerns about a slowdown in global economic growth and the oil turmoil. The combination of these factors has led to wider credit spreads over 2015. In the US, increasing investor demand has been met with new issuance in the asset-backed sector. The combination of these factors has led to varied performance by sector, with most sectors exhibiting wider credit spreads over the course of the year.

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The breakdown by quality of the available-for-sale ABS portfolio of Aegon USA, Aegon the Netherlands and Aegon UK is as follows:

	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
ABS US, NL and UK							
Credit cards	392	63	36	-	-	491	505
Autos	246	18	13	20	-	297	297
Small business loans	-	3	12	-	151	166	154
CDOs backed by ABS, Corp. bonds, Bank loans	1,747	744	304	128	107	3,031	3,005
Other ABS	738	424	1,708	333	53	3,256	3,636
At December 31, 2015	3,122	1,252	2,074	482	312	7,241	7,596

	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
ABS US, NL and UK							
Credit cards	382	36	77	42	-	536	556
Autos	220	11	15	4	-	251	252
Small business loans	-	5	23	51	114	193	187
CDOs backed by ABS, Corp. bonds, Bank loans	1,277	750	357	117	179	2,680	2,643
Other ABS	771	442	1,657	367	34	3,271	3,782
At December 31, 2014	2,650	1,243	2,129	581	327	6,931	7,420

There were no individual issuers rated below investment grade in this ABS sector which has unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA, Aegon the Netherlands and Aegon UK ABS instruments (AFS and FVTPL) were determined as follows:

	Level II	Level III	Total 2015	Level II	Level III	Total 2014
ABSs	4,443	3,161	7,605	4,467	2,969	7,436
Corporate - Financial sector						

The Corporate - Financial sector is further subdivided into banking, brokerage, insurance, REITs and Financial - Other sub-sectors. A majority of the gross unrealized loss in Aegon's available-for-sale portfolio is from the banking sub-sector.

[Corporate](#) [Financial sector](#) [Banking sub-sector](#)

The Banking sub-sector in Aegon's portfolio is relatively large, diverse, and of high quality. Aegon holds EUR 9,157 million (December 31, 2014: EUR 9,458 million) of AFS bonds issued by banks. In aggregate, the gross unrealized loss on these bonds amounted to EUR 169 million (December 31, 2014: EUR 181 million) and the net unrealized gain on these bonds amounted to EUR 327 million (December 31, 2014: EUR 489 million).

Bank regulators have implemented a wide array of reforms designed to strengthen capital levels, reduce balance sheet risk and improve liquidity in an effort to reduce systemic risk. Many banks already meet new capital and liquidity requirements, well ahead of regulatory deadlines. In addition, regulators and central governments are adopting new bank guidelines, which are designed to reduce systemic risk by tapping loss-absorbing capital, as needed, to recapitalize or resolve a bank without using taxpayer money. Globally, risk concentrations on bank balance sheets continue to exist, and ratings for some banks remain under pressure, but central banks are accommodative and confidence in the sector has increased materially since the financial crisis.

Within the Banking sub-sector, Aegon holds EUR 1,053 million (December 31, 2014: EUR 1,116 million) of deeply subordinated securities with deferrable coupons that have an associated unrealized loss of EUR 119 million (December 31, 2014 EUR 114 million).

There is one individual issuer rated below investment grade in the Banking sub-sector which has unrealized losses greater than EUR 25 million.

	Category	Fair value	Unrealized loss	Rating	Aging of unrealized loss
Belfius Bank SA	Banking	90	36	BB	> 24 months

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Aegon's available-for-sale debt securities for Belfius Bank SA have a fair value of EUR 90 million as of December 31, 2015 (December 31, 2014: EUR 74 million). These below investment grade securities had gross unrealized losses of EUR 36 million as of December 31, 2015 (December 31, 2014: EUR 39 million). Belfius Bank SA was created as a result of the financial crisis, Belfius Bank has been 100% owned by the Belgium Government since it was split out of Dexia in October, 2011. The bank operates as a bank-insurer, providing public finance, project finance and other financial services to local governments, the public welfare sector and retail and corporate clients. Historically, the bank's credit risk has been centered on three areas: 1) an oversized bond investment portfolio (wholesale funded); 2) a large amount of credit guarantees provided by Belfius and reinsured with monolines on bonds issued by entities principally active in infrastructure and public utilities projects; and 3) a significant level of funding exposure to Dexia Group. The funding provided to Dexia was repaid in February, 2015 and the bond portfolio and credit guarantees have declined in scale and will be run-down to a risk level in line with Belfius' core franchise business. The material de-risking by the bank since 2011, combined with a relatively stable bank-insurance business model, has lessened Aegon's concern with Belfius. Aegon evaluated the near-term prospects of the issuer and it believes that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

Corporate - Industrial sector

The Corporate - Industrial sector is further subdivided into various sub-sectors. A majority of Aegon's available-for-sale portfolio gross unrealized loss is in the Basic Industry and Consumer Non-Cyclical sub-sectors.

Corporate - Industrial sector - Basic Industry sub-sector

The Basic Industry sector encompasses various sub-sectors including metals and mining, chemicals and paper and forest products, with the majority of the gross unrealized loss relating to metals and mining. Fundamentals for the metals and mining industry have been negatively impacted by falling prices for base metals, ferrous metals, precious metals, iron ore and coal. Slowing economic data out of China has resulted in reduced demand for the base metals and bulk steel-making commodities as the country comprises from 40%-60% of global consumption for most of these commodities. The lack of a sufficient response on the supply side for these commodities has driven significant pricing pressure. The top line pressure companies are experiencing combined with their willingness to take on additional debt when commodity prices were rising has resulted in a substantial deterioration in credit metrics for the majority of the metals and mining industry. Chemicals have been positively impacted by continued low natural gas prices within the US, but given the global scale of most players in the industry, they have also been harmed by a slowdown in global growth as well as volatility in raw material costs, increasing competition from global peers and the potential for lower margins given falling oil prices. Paper and forest products have shown some improvement as the housing recovery takes hold in the United States, but more traditional paper products, such as newsprint, remain challenged. Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2015.

There is one individual issuer rated below investment grade in the Basic Industry sub-sector which has unrealized losses greater than EUR 25 million.

	Category	Fair value	Unrealized loss	Rating	Aging of unrealized loss
Teck Resources Ltd.	Basic Industry	28	37	BB	> 24 months

Aegon's available-for-sale debt securities for Teck Resources Limited have a fair value of EUR 28 million as of December 31, 2015. These below investment grade securities had gross unrealized losses of EUR 37 million as of December 31, 2015 (December 31, 2014: EUR 7 million). Teck Resources Limited is a diversified mining company with assets in Canada, the United States, Peru and Chile. The decline in value has been due to the weakness in pricing for metallurgical coal, copper and zinc, which are Teck's three main commodity exposures. The reduction in earnings relates to falling commodity prices, which is compounded by sizable capital expenditure commitments. Teck's liquidity position continues to remain solid. The weaker Canadian dollar and lower oil prices are helping to offset some of the top line pressure by driving down unit costs for Teck's commodity production. While pressure is expected to remain on commodity prices, Teck's maturity profile is not overly onerous relative to its liquidity position, providing it with an ample runway to wait out an improvement in commodity prices, therefore Aegon evaluated that the contractual terms of this investment will be met and was not impaired as of December 31, 2015.

Corporate - Industrial sector - Consumer Non-Cyclical sub-sector

The Consumer Non-Cyclical sub-sector encompasses various industries ranging from consumer products to supermarkets. The more significant of these sub-sectors from an unrealized loss perspective are food and beverage and pharmaceuticals. Food and Beverage balance sheets have begun to modestly weaken as mergers and acquisitions have picked up in the sector. The activity has been in

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response to less impactful cost savings programs in a continued low volume, slow growth environment. While showing signs of stabilization, the pharmaceutical sector continues to deal with some patent cliff issues. As drugs roll off their patents, generic competition takes market share and pulls down margins. Additionally, shareholder friendly activities in the form of increased dividends and share repurchases continue. Merger and acquisition activity continues to be prevalent in the sector, at times resulting in additional leverage. Finally, some companies have analyzed their business models and decided to spin off business lines, in an effort to concentrate on their core competencies. In certain instances, this has resulted in smaller, less diversified companies. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

Corporate - Industrial sector - Consumer Cyclical sub-sector

The Consumer Cyclical sub-sector encompasses various industries ranging from retailers to home construction. The more significant of these sub-sectors from an unrealized loss perspective are retailers, leisure, home construction and automotive. Within the retail sector, merger and acquisition activity has resulted in additional leverage and a more risky profile of some specific companies. As these companies realize synergies and right-size their capital structure with further debt reduction, operating metrics should show signs of stabilization. Lower fuel prices provide potential for additional consumer discretionary spending, especially in the lower-income demographic. The leisure sector should benefit from historically low fuel prices for both operators via lower operating costs, and consumers with additional cash in their wallets. The cruise line sector specifically also stands to benefit from increased customer penetration off a very low base, and entry into the high-potential Chinese market. The home construction sector continues to benefit from the housing recovery. In general, home closings and orders continue to grow at a healthy pace in most markets. However, companies are starting to note accelerated softness in oil and gas related housing markets. This, along with labor shortage issues and rising land costs, have negatively impacted recent results for some companies. Most enterprises still remain optimistic with the housing cycle and are continuing to invest in land to grow its business. Therefore, leverage remains elevated and companies are relying on the capital markets to address near term obligations. Within the automotive sector, the underlying fundamentals driving sales and earnings performance of the automotive industry continue to be supported by relatively strong consumer confidence, high credit availability, low oil prices and financing rates and continued demand for high-margin full-size pickups and SUVs. Lower fixed cost structures have improved the profitability and lowered the breakeven production and sales levels for the industry. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

Corporate - Industrial sector - Capital Goods sub-sector

The Capital Goods sub-sector encompasses various sub-sectors including building materials, diversified manufacturing, aerospace/ defense, packaging, environmental and construction machinery. The more significant of these sub-sectors from an unrealized loss perspective are building materials, diversified manufacturing and aerospace/defense. In general, the building material industry continues to benefit from growth in overall construction spending. Growth has been tempered lately by labor shortage issues, which is contributing to project delays and higher costs. However, most companies maintain a favorable outlook and continue to use excess cash or incremental borrowings to fund growth initiatives. Therefore, given the business is highly cyclical, the recent softness in pockets

of the economy has weighed on companies with constrained liquidity and near term debt maturities. The diversified manufacturing space has shown signs of weakness due to lower capital spending by customers engaged in the oil & gas markets. With oil prices at historically low levels, customers are reluctant to take on additional projects or spend capital to improve their infrastructure. Additionally, shareholder friendly activities in the form of increased dividends and share repurchases continue. In the aerospace/ defense sector, demand for commercial aircraft has been weaker than expected, as low fuel prices have pushed out demand and may put pressure on historically low order cancellation rates for more fuel efficient commercial aircraft. Additionally, the business jet market has seen signs of weakness and deliveries are expected to be lower in 2016 compared to 2015. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

Corporate - Industrial sector - Transportation sub-sector

The Transportation sub-sector can be further divided into airlines, railroads and transportation services. The majority of the gross unrealized loss relates to completed and operating private infrastructure, such as airports, ports and toll roads. These investments tend to trade at tighter yields than the broader transportation sector due to limited competition and the benefit of security in long-life asset. Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments impaired as of December 31, 2015.

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The Communication sector encompasses various sub-sectors including cable satellite, media entertainment, wireless and wirelines. Merger and acquisition speculation and activity created volatility in each of the sub-sectors during the year. In addition, several issuers in the communications sector are among the largest issuers in the market and were negatively impacted by the sell-off in liquid securities. On a fundamental basis, the competitive environment in the wireless market remains challenging. The wireline market continues to see a gradual secular decline, whereas cable continues to benefit from the demand for broadband. Media is experiencing an evolution away from traditional media to digital. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

There are no remaining individual issuers rated below investment grade in the Corporate - Industrial sector which have unrealized loss positions greater than EUR 25 million.

Corporate - Energy industry sector

The Energy Industry sector encompasses various sub-sectors including integrated oil and gas producers, independent oil and gas producers, midstream processing and transport, oil field services and drilling, and refining. The majority of the gross unrealized loss relates to independent oil and gas producers, as well as oil field services and drilling. Falling oil prices, and continued low natural gas prices, have reduced cash flow for upstream oil and gas producers. Oil field service and drilling companies have been pressured by the prospect of margin pressure resulting from new capacity additions and the prospect of lower capital spending by their upstream client base. Commodity price pressure stems from strong non-OPEC supply growth, softening global demand, and shifting OPEC policy. Companies have responded with capital spending and cost reduction programs, but cash flows and credit metrics continue to weaken. Some issuers have also initiated debt exchange offers that have put additional pressure on security pricing. Midstream processing and transport companies have begun to be impacted by weaker volume growth, higher capital costs, counterparty concerns, and in some cases, commodity price exposure. Refiners have seen positive near term impacts from lower feedstock costs and stronger demand. Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2015.

There is one individual issuer rated below investment grade in the Energy Industry sector which has unrealized losses greater than EUR 25 million.

	Category	Fair value	Unrealized loss	Rating	Aging of unrealized loss
Transocean Inc.	Energy	27	26	BB	> 24 months

Aegon's available-for-sale debt securities for Transocean Inc. have a fair value of EUR 27 million as of December 31, 2015. These below investment grade securities had gross unrealized losses of EUR 26 million as of December 31, 2015 (December 31, 2014: EUR 9 million). Transocean is an offshore drilling contractor, leasing rigs to the energy

industry. Transocean is wholly dependent on the financial standing and capital spending of its customers engaged in exploring and producing oil and natural gas. The weak oil prices have negatively affected the outlook for 2016 and 2017 upstream capital spending. Also, negative rig supply and demand dynamics have affected pricing and utilization. As a result, Transocean's near-term EBITDA throughout 2016 and 2017 is expected to fall materially. The negative fundamental landscape and negative ratings migration has led to the decline in bond prices. Transocean currently has a strong liquidity position. Also, the elimination of Transocean's dividend and the delay of capital spending has better matched its cash flow outspend. Lastly, there is likely secured financing available to Transocean over this timeframe as it has contracted rigs through 2020+ with IG customers that are currently unencumbered. This last step may be needed in 2018, by which time we expect oil prices and upstream capital expenditures to be a bit more favorable than the current environment. As a result, no impairment is warranted at this time.

Corporate - Utility sector

The Utility sector is further subdivided into electric, natural gas and other sub-sectors, with a majority of the gross unrealized losses in electrics domiciled in the United States.

Within the Electric sub-sector, regulated electric utilities, which account for the majority of debt issuance in the sector, continue to produce predictable cash flow and credit trends have been stable to improving for most companies operating in the United States. The low natural gas price environment has generally been beneficial for regulated utilities because it has had the effect of decreasing the fuel component on customer's bills. Lower all in cost to the customer generally enables increases in other operating costs to be passed through with less regulatory lag. Unregulated merchant power generators operating in the United States have been negatively

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impacted by low natural gas prices and the corresponding low electricity prices as well as reduced customer usage. These companies have experienced margin pressure for their coal and nuclear generation assets. Absent a recovery in electricity prices, credit fundamentals for merchant generators could show further deterioration as hedges continue to roll-off. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

There are no individual issuers rated below investment grade in this sub-sector which have unrealized loss positions greater than EUR 25 million.

Sovereign

Aegon Americas, Aegon the Netherlands and Aegon UK's government issued available-for-sale debt securities include emerging market sovereign bonds, US Treasury bonds, agency and state bonds. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2015.

There are no individual issuers rated below investment grade in the sovereign sector which have unrealized loss positions greater than EUR 25 million.

Unrealized loss by maturity

The table below shows the composition by maturity of all available-for-sale debt securities in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	December 31, 2015		December 31, 2014	
	Carrying value of securities with gross unrealized losses		Carrying value of securities with gross unrealized losses	
One year or less	1,172	(22)	674	(6)
Over 1 through 5 years	5,011	(225)	3,178	(136)
Over 5 through 10 years	7,496	(386)	3,891	(145)

Over 10 years	10,621	(1,077)	4,268	(425)
Total	24,300	(1,710)	12,011	(713)

Unrealized loss by credit quality

The table below shows the composition by credit quality of debt securities, available-for-sale, in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	December 31, 2015		December 31, 2014	
	Carrying value of securities with gross unrealized losses		Carrying value of securities with gross unrealized losses	Gross unrealized losses
AAA				
	6,740	(188)	2,980	(44)
AA				
	2,381	(54)	1,209	(25)
A				
	4,127	(204)	2,080	(93)
BBB				
	8,021	(752)	3,570	(250)
BB				
	1,420	(287)	1,060	(172)
B				
	812	(91)	615	(41)
Below B				
	799	(134)	498	(89)
Total	24,300	(1,710)	12,011	(713)

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

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

		At December 31, 2014			
		Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0	6 months				
		4,799	1,058	(104)	(58)
6	12 months	637	104	(21)	(9)

> 12 months	4,403	1,011	(286)	(234)
Total	9,839	2,173	(411)	(302)

The unrealized loss worsened during 2015 due to rising interest rates and widening credit spreads in the US and UK.

Aging and severity unrealized losses

The table below provides the length of time a below investment grade security has been in an unrealized loss and the percentage of carrying value (CV) to amortized cost in Aegon Americas, Aegon the Netherlands and Aegon UK.

Aging and severity unrealized losses	2015		2014	
	Carrying value	Unrealized losses	Carrying value	Unrealized losses
CV 70-100% of amortized cost				
	1,422	(97)	1,054	(55)
CV 40-70% of amortized cost				
	33	(16)	4	(3)
CV < 40% of amortized cost	4	(8)	-	-
0-6 months	1,458	(121)	1,058	(58)
CV 70-100% of amortized cost				
	308	(45)	104	(9)
CV 40-70% of amortized cost				
	48	(33)	-	-
CV < 40% of amortized cost	1	(2)	-	-
6-12 months	357	(80)	104	(9)
CV 70-100% of amortized cost				
	337	(46)	137	(9)
CV 40-70% of amortized cost				
	73	(58)	17	(14)
CV < 40% of amortized cost	5	(22)	-	(1)
12-24 months	415	(125)	154	(24)
CV 70-100% of amortized cost				
	761	(143)	713	(118)

CV 40-70% of amortized cost

	26	(13)	136	(76)
CV < 40% of amortized cost	15	(29)	7	(16)
> 24 months	802	(185)	857	(210)

Total

3,031	(512)	2,173	(302)
--------------	--------------	--------------	--------------

There are three individual issuers, Belfius Bank SA, Teck Resources and Transocean Inc. rated below investment grade that have an unrealized loss greater than EUR 25 million. These issuers have been separately disclosed above in the Corporate Financial sector and Industrial sector portions of note 4.

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Realized gains and losses on debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK

The following table provides the realized gains and losses on the debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK for the twelve months ended December 31, 2015, and December 31, 2014.

Realized gains and losses on debt securities of Aegon Americas, Aegon the Netherlands and**Aegon UK****December 31, 2015**

Debt securities

December 31, 2014

Debt securities

Gross realized gains	Gross realized losses
----------------------	-----------------------

545 (207)

584 (124)

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired.

	Gross realized losses		
	0 - 12 months	> 12 months	Total
December 31, 2015			
Debt securities	(154)	(53)	(207)
December 31, 2014			
Debt securities	(58)	(66)	(124)

Impairment losses and recoveries

The composition of Aegon Americas, Aegon the Netherlands and Aegon UK's bond impairment losses and recoveries by issuer for the periods ended December 31, 2015, and December 31, 2014, is presented in the table below. Those issuers with impairments or recoveries above EUR 25 million are specifically noted.

	2015 (Impairment) / recovery	2014 (Impairment) / recovery
Impairments:		
Other (none individually greater than EUR 25 million)	(32)	(36)
Subtotal	(32)	(36)
Recoveries:		
Total recoveries	110	56

Sub-total	110	56
Net (impairments) and recoveries	77	20
Net (impairments) and recoveries		

Net recoveries for the twelve months ended December 31, 2015, totaled EUR 77 million (twelve months ended December 31, 2014: EUR 20 million net recoveries).

For the twelve months ended December 31, 2015, Aegon recognized EUR 110 million (twelve months ended December 31, 2014: EUR 56 million) in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

In 2015, Aegon recognized EUR 83 million in recoveries on an investment, Countrywide, which is based on the Bank of America legal settlement process stemming from the financial crisis.

Past due and impaired assets

The tables that follow provide information on past due and individually impaired financial assets for the whole Aegon Group. An asset is past due when a counterparty has failed to make a payment when contractually due. Assets are impaired when an impairment loss has been charged to the income statement relating to this asset. After the impairment loss is reversed in subsequent periods, the asset is no longer considered to be impaired. When the terms and conditions of financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

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Aegon's policy is to pursue realization of the collateral in an orderly manner as and when liquidity permits. Aegon generally does not use the non-cash collateral for its own operations.

Past due but not impaired assets	2015				2014			
	0-6 months	6-12 months	> 1 year	Total	0-6 months	6-12 months	> 1 year	Total
Debt securities - carried at fair value	51	3	53	108	10	53	14	77
Mortgage loans	58	4	6	68	51	4	6	61
Other loans	29	-	-	29	38	-	1	40
Accrued interest	-	-	6	7	-	3	1	4
At December 31	138	8	65	211	99	60	23	182

	Carrying amount 2015	Carrying amount 2014
Impaired financial assets		
Shares	128	132
Debt securities - carried at fair value	1,413	1,470
Mortgage loans	584	670
Private Loans	9	7
Other loans	7	4
Other financial assets - carried at fair value	5	8
At December 31	2,147	2,291

Equity instruments classified as available-for-sale

Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined within Aegon as an unrealized loss position for more than six months or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

These factors typically require significant management judgment. The impairment review process has resulted in EUR 4 million of impairment charges for the twelve months ended December 31, 2015 (twelve months ended December 31, 2014: EUR 3 million) for Aegon Americas, Aegon the Netherlands and Aegon UK.

As of December 31, 2015, there are EUR 121 million of gross unrealized gains and EUR 13 million of gross unrealized losses in the equity portfolio of Aegon (December 31, 2014: EUR 180 million of gross unrealized gains and EUR 12 million of gross unrealized losses). There are no securities held by Aegon with an unrealized loss above EUR 5 million. The table below represents the unrealized gains and losses on share positions held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	Cost basis	Carrying value	Net unrealized gains / (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
December 31, 2015							
Shares	593	794	201	747	214	47	(13)
December 31, 2014							
Shares	444	610	166	538	177	72	(11)

The composition of shares by industry sector in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK at December 31, 2015, and December 31, 2014 is presented in the table below.

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	2015	2014
Carrying value of instruments with unrealized losses	Gross unrealized losses	Gross unrealized losses
Unrealized losses on shares		
Consumer	-	-
Financials	47	(11)
Funds	-	(1)
Total	47	(11)

Impairment losses on shares

The table below provides the length of time the shares held by Aegon Americas, Aegon the Netherlands and Aegon UK were below cost prior to their impairment in 2015 and 2014.

In million EUR
2015

0-6 months

Shares
2014

(2)

Equity market risk and other investments risk

Fluctuations in the equity, real estate and capital markets have affected Aegon's profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where Aegon bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for policyholders where funds are invested in equities, backing variable annuities, unit-linked products and mutual funds. Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee earned by Aegon on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees.

The general account equity, real estate and other non-fixed-income portfolio of Aegon is as follows:

Equity, real estate and non-fixed income exposure	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total 2015
Equity funds	152	470	-	57	-	679
Common shares ¹⁾	303	-	475	15	114	907
Preferred shares	228	-	-	2	-	230
Investments in real estate	840	1,148	-	2	-	1,990
Hedge funds	1,581	1	-	2	-	1,585
Other alternative investments	1,385	-	-	-	10	1,395
Other financial assets	585	-	4	8	-	596
At December 31	5,074	1,619	479	86	124	7,382

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

Equity, real estate and non-fixed income exposure	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total 2014
Equity funds	141	518	-	15	-	674
Common shares ¹⁾	272	7	193	13	105	591
Preferred shares	254	-	-	2	-	256
Investments in real estate	721	1,069	-	2	-	1,792
Hedge funds	786	1	-	-	-	787
	1,408	-	-	-	-	1,408

Other alternative
investments

Other financial assets	645	-	134	8	-	786
At December 31	4,227	1,596	327	39	105	6,295

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

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Market risk concentrations shares	Americas	The Netherlands	United Kingdom	New Markets	Total 2015 ¹⁾	Of which impaired assets
Communication	43	-	-	-	48	-
Consumer	25	-	-	-	43	-
Financials	557	4	190	-	775	6
Funds	-	129	286	68	547	121
Industries	12	-	-	-	16	-
Other	14	4	-	4	31	2
At December 31	652	136	475	73	1,460	128

¹ Includes investments of Holding and other activities.

Market risk concentrations shares	Americas	The Netherlands	United Kingdom	New Markets	Total 2014 ¹⁾	Of which impaired assets
Communication	40	1	-	-	43	-
Consumer	16	2	-	-	30	2
Financials	545	5	-	2	578	1
Funds	-	146	193	22	408	124
Industries	24	1	-	1	36	-
	11	6	-	2	29	5

Other

At December 31 636 161 193 28 1,123 132

¹ Includes investments of Holding and other activities.

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

	2015	2014	2013	2012	2011
S&P 500	2,044	2,059	1,848	1,426	1,258
Nasdaq	5,007	4,736	4,177	3,020	2,605
FTSE 100	6,242	6,566	6,749	5,898	5,572
AEX	442	424	402	343	312

The sensitivity analysis of net income and shareholders' equity to changes in equity prices is presented in the table below.

The sensitivity of shareholders' equity and net income to changes in equity markets reflects changes in the market value of Aegon's portfolio, changes in DPAC amortization, contributions to pension plans for Aegon's employees and the strengthening of the guaranteed minimum benefits, when applicable. The results of equity sensitivity tests are non-linear. The main reason for this is due to equity options sold to clients that are embedded in some of these products and that more severe scenarios could cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not. Aegon generally has positive income benefits from equity market increases and negative impacts from equity market declines as it earns fees on policyholder account balances and provides minimum guarantees for account values. Aegon holds options in its portfolio to provide protection for equity market declines. In 2015 Aegon added options to the portfolio to provide additional protection.

Sensitivity analysis of net income and shareholders' equity to equity markets
Immediate change of
2015

Estimated approximate effects on net income Estimated approximate effects on shareholders' equity

Equity increase 10%	132	237
Equity decrease 10%	25	(99)
Equity increase 20%	279	504
Equity decrease 20%	104	(132)

2014

Equity increase 10%	107	244
Equity decrease 10%	(115)	(247)
Equity increase 20%	146	413
Equity decrease 20%	(209)	(474)

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Liquidity risk

Liquidity risk is inherent in much of Aegon's business. Each asset purchased and liability incurred has its own liquidity characteristics. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. If Aegon requires significant amounts of cash on short notice in excess of normal cash requirements and existing credit facilities, it may have difficulty selling these investments at attractive prices or in a timely manner.

Aegon operates a Liquidity Risk Policy under which country units are obliged to maintain sufficient levels of highly liquid assets to meet cash demands by policyholders and account holders over the next two years. Potential cash demands are assessed under a stress scenario including spikes in disintermediation risk due to rising interest rates and concerns over Aegon's financial strength due to multiple downgrades of the Group's credit rating. At the same time, the liquidity of assets other than cash and government issues is assumed to be severely impaired for an extended period of time. All legal entities and Aegon Group must maintain enough liquidity in order to meet all cash needs under this extreme scenario.

Aegon held EUR 36,521 million of general account investments in cash, money market products and sovereign bonds that are readily saleable or redeemable on demand (2014: EUR 35,604 million). The Group expects to meet its obligations, even in a stressed liquidity event, from operating cash flows and the proceeds of maturing assets as well as these highly liquid assets. Further, the Group has access to back-up credit facilities, as disclosed in note 39 Borrowings, amounting to EUR 3,568 million which were unused at the end of the reporting period (2014: EUR 4,404 million).

The maturity analysis below shows the remaining contractual maturities of each category of financial liabilities (including coupon interest). When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that can be required to be paid on demand without any delay are reported in the category On demand. If there is a notice period, it has been assumed that notice is given immediately and the repayment has been presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

To manage the liquidity risk arising from financial liabilities, Aegon holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. For this reason, Aegon believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

Maturity analysis	gross undiscounted	On demand	< 1 yr	1 < 5 yrs	5 < 10 yrs	> 10 yrs	Total
contractual cash flows			amount	amount	amount	amount	amount

**(for non-derivatives)
2015**

Trust pass-through securities	-	9	38	47	169	263
Subordinated loans	-	28	112	112	1,183	1,435
Borrowings	-	2,665	7,117	430	3,833	14,045
Investment contracts ¹⁾	10,285	2,140	2,056	1,062	1,683	17,225
Investment contracts for account of policyholders ¹⁾	32,786	3,261	-	-	282	36,329
Other financial liabilities	7,291	2,757	871	12	29	10,962

2014

Trust pass-through securities	-	8	34	42	160	244
Subordinated loans	-	28	112	140	1,134	1,414
Borrowings	-	3,684	6,472	1,884	3,527	15,568
Investment contracts ¹⁾	8,795	2,171	2,516	1,320	1,058	15,861
Investment contracts for account of policyholders ¹⁾	29,911	3,427	-	-	114	33,453
Other financial liabilities	10,407	3,935	162	5	24	14,532

¹ Excluding investment contracts with discretionary participating features.

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Aegon's liquidity management is based on expected claims and benefit payments rather than on the contractual maturities.

The projected cash benefit payments in the table below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions based on Aegon's historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

**Financial liabilities relating to
insurance**
**and investment contracts ¹⁾
2015**

	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Insurance contracts	-	5,130	21,353	22,153	131,584	180,220
Insurance contracts for account of policyholders	-	7,205	30,668	31,314	97,230	166,417
Investment contracts	-	3,213	6,570	4,381	5,776	19,941
Investment contracts for account of policyholders	255	11,489	28,422	26,050	64,509	130,725
2014						
Insurance contracts	-	4,962	20,261	21,348	117,892	164,463
Insurance contracts for account of policyholders	-	6,580	27,434	26,771	85,482	146,267
Investment contracts	-	2,367	6,581	4,154	4,756	17,858
	289	9,948	27,591	25,372	72,461	135,661

Investment contracts for account of
policyholders

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

The following table details the Group's liquidity analysis for its derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

**Maturity analysis relating to
derivatives ¹⁾**

(Contractual cash flows) 2015
Gross settled

	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Cash inflows	-	15,428	10,166	16,984	32,890	75,468
Cash outflows	-	(15,812)	(11,179)	(16,871)	(29,622)	(73,485)

Net settled

Cash inflows	-	175	993	1,742	4,493	7,403
Cash outflows	-	(89)	(447)	(823)	(4,935)	(6,294)

- ¹ Derivatives includes all financial derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only, cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

**Maturity analysis relating to
derivatives ¹⁾**

(Contractual cash flows) 2014
Gross settled

	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Cash inflows	-	17,004	10,957	20,187	45,628	93,777
Cash outflows	-	(16,832)	(11,270)	(20,123)	(41,463)	(89,689)

Cash outflows

Net settled

Cash inflows	-	149	922	1,671	4,455	7,196
Cash outflows	-	(85)	(510)	(879)	(4,079)	(5,552)

¹ Derivatives includes all financial derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

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5 Segment information

Aegon conducted its operations through five primary reporting segments in 2015:

- ⌚ Aegon Americas: covers business units in the United States, Canada (until July 31, 2015), Brazil and Mexico, including any of the units' activities located outside these countries;
- ⌚ Aegon the Netherlands: covers businesses operating in the Netherlands;
- ⌚ Aegon UK: covers businesses operating in the United Kingdom;
- ⌚ New Markets: covers businesses operating in Central & Eastern Europe; Asia, Spain and Portugal, as well as Aegon's variable annuities activities in Europe and Aegon Asset Management that are aggregated as one reportable segment due to their respective size;
- ⌚ Holding and other activities: includes financing, employee and other administrative expenses of holding companies.

These segments are based on the business as presented in internal reports that are regularly reviewed by the Executive Board which is regarded as the chief operating decision maker.

Aegon's segment information is prepared by consolidating on a proportionate basis Aegon's joint ventures and associated companies.

Performance Measure

A performance measure of reporting segments utilized by the Company is underlying earnings before tax. Underlying earnings before tax reflects Aegon's profit from underlying business operations and excludes components that relate to accounting mismatches that are dependent on market volatility or relate to events that are considered outside the normal course of business.

Aegon believes that its performance measure underlying earnings before tax provides meaningful information about the underlying results of Aegon's business, including insight into the financial measures that Aegon's senior management uses in managing the business. Among other things, Aegon's senior management is compensated based in part on Aegon's results against targets using underlying earnings before tax. While many other insurers in Aegon's peer group present substantially similar performance measures, the performance measures presented in this document may nevertheless differ from the performance measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards.

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

The items that are excluded from underlying earnings before tax as described further below are: fair value items, realized gains or losses on investments, impairment charges/reversals, other income or charges, run-off businesses and share in earnings of joint ventures and associates.

During 2015, Aegon implemented actuarial assumption and model updates resulting in a net EUR 181 million charge to income before tax.

Assumption updates resulted in a net EUR 24 million gain to income before tax. Charges arising from actuarial assumption updates included in underlying earnings before tax in 2015 amounted to EUR 77 million:

- ⓘ A charge for actuarial assumption updates in the Americas Life & Protection business amounted to EUR 17 million, and was primarily related to updated mortality assumptions of active lives and updated lapse assumptions.
- ⓘ Actuarial assumption updates in the Americas Investments & Retirement business resulted in a charge of EUR 60 million and was primarily related to expense assumption updates related to fixed and variable annuity contracts.

Actuarial assumption changes not included in underlying earnings before tax had a favorable impact on income before tax of EUR 101 million. This has been recorded in fair value items and is primarily reflecting an update of the risk free yield curve to determine Aegon's liabilities for certain variable annuity contracts as well as economic scenario updates for both fixed and variable annuity contracts.

In 2015, management decided to change the measurement of underlying earnings before tax by including the impact of model updates as part of Other income/(charges) rather than as part of underlying earnings before tax. The models are used to support calculations of Aegon's liabilities for insurance and investment contracts sold to policyholders and related assets. Model updates could result in either a strengthening of reserves or a release of reserves held to cover for insurance or investment contracts in force and the related treatment of deferred acquisition costs or costs of value of business acquired. The reason for this change in measurement is that management believes that these model updates are expected not to be recurring.

Table of Contents**188** Notes to the consolidated financial statements **Note 5**

Model updates not included in underlying earnings before tax had an adverse impact on income before tax of EUR 205 million:

- ⌚ A charge of EUR 275 million in the Americas Life & Protection business for enhancing the modeling of universal life policies.
- ⌚ Model updates in the Americas Investments & Retirement business resulted in a gain of EUR 132 million.
- ⌚ A charge of EUR 61 million in New Markets regarding model updates in Asia.

The impact of this change in measurement on 2014 would have been an increase in Aegon Group consolidated underlying earnings before tax of EUR 82 million and a decrease in Other income/(charges) for the same amount for segment reporting purposes. The impact is split between the Americas (EUR 57 million) and New Markets (EUR 26 million). The presentation of the items in the IFRS income statement remained unchanged and continue to be part of the line Policyholder claims and benefits .

Fair value items

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

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 before tax exclude any over- or underperformance compared to management's long-term expected return on assets. Based on current holdings and asset returns, the long-term expected return on an annual basis is 8-10%, depending on asset class, including cash income and market value changes. The expected earnings from these asset classes are net of deferred policy acquisition costs (DPAC) where applicable.

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

The fair value movements of certain guarantees and the fair value change of derivatives that hedge certain risks on these guarantees of Aegon the Netherlands and Variable Annuities Europe (included in New Markets) are excluded from underlying earnings before tax, 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 before tax and reported under fair value items.

Realized gains or losses on investments

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

Impairment charges/reversals

Impairment charges include impairments on available-for-sale debt securities, shares including the effect of deferred policyholder acquisition costs, mortgage loans and other loan portfolios at amortized cost, joint ventures and associates including the effect of deferred policyholder acquisition costs when the returns are part of a product grouping where DPAC is amortized based on gross profits. Impairment reversals include reversals on available-for-sale debt securities.

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.

As of 2015, the impact of model updates used to support calculations of Aegon's liabilities for insurance and investment contracts sold to policyholders and related assets are reported under this caption as well.

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Other charges may include restructuring charges that are considered other charges for segment reporting purposes because they are outside the normal course of business. In the consolidated income statements, 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 results related to the run-off of the institutional spread-based business, structured settlements blocks of business, bank-owned and corporate-owned life insurance (BOLI/COLI) business, and the sale of the life reinsurance business in the United States. Aegon has other blocks of business for which sales have been discontinued and of which the earnings are included in underlying earnings before tax.

Share in earnings of joint ventures and associates

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

Income statement	Holding						Joint ventures and associates		Consolidated
	Americas	The Netherlands	United Kingdom	New and other Markets	activities	Eliminations	Segment total	Eliminations	
Underlying earnings 2015									
Underlying earnings before tax	1,200	537	125	236	(163)	2	1,939	34	1,973
Fair value items	(589)	175	(27)	8	(68)	-	(500)	(59)	(559)
Realized gains / (losses) on investments	(74) (43)	306 (25)	95 -	20 (2)	- -	- -	346 (70)	(8) (21)	338 (91)

Impairment charges									
Impairment reversals	114	5	-	-	-	-	119	-	119
Other income / (charges)	(938)	(22)	27	(47)	-	-	(980)	21	(959)
Run-off businesses	52	-	-	-	-	-	52	-	52
Income / (loss) before tax	(277)	977	220	215	(230)	2	906	(33)	874
Income tax (expense) / benefit									
	31	(223)	(2)	(71)	71	-	(194)	33	(162)
Net income / (loss)	(246)	753	218	144	(159)	2	712	-	712
<i>Inter-segment underlying earnings</i>	(220)	(55)	(75)	339	10				
Revenues									
2015									
Life insurance gross premiums	7,046	2,240	5,650	2,565	4	(106)	17,400	(431)	16,969
Accident and health insurance	2,266	234	47	170	6	(6)	2,717	(14)	2,703
General insurance	-	473	-	244	2	-	720	(80)	640
Total gross premiums	9,312	2,947	5,697	2,979	13	(112)	20,836	(524)	20,311
Investment income	3,680	2,277	2,327	291	387	(385)	8,576	(51)	8,525
	1,704	351	43	813	-	(278)	2,633	(195)	2,438

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Fee and
commission
income

Other revenues

Total revenues

9	-	-	2	7	-	19	(5)	14
14,705	5,575	8,067	4,086	406	(776)	32,064	(775)	31,289

Inter-segment
revenues

24	2	-	356	393
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Table of Contents190 Notes to the consolidated financial statements **Note 5**

	Holding						Joint ventures and associates		Consolidated
	Americas	The Netherlands	United Kingdom	New and other Markets	and other activities	Eliminations	Segment total	eliminations	dated
Income statement									
-									
Underlying earnings 2014									
Underlying earnings before tax	1,134	558	115	196	(139)	1	1,865	(9)	1,856
Fair value items	(497)	(766)	(15)	(6)	(82)	-	(1,366)	2	(1,364)
Realized gains / (losses) on investments	85	431	164	16	-	-	697	(3)	694
Impairment charges	(38)	(19)	-	(43)	-	-	(100)	(23)	(123)
Impairment reversals	58	7	-	-	-	-	66	-	66
Other income / (charges)	(52)	(113)	(49)	(24)	(3)	-	(240)	22	(218)
Run-off businesses	(21)	-	-	-	-	-	(21)	-	(21)
Income / (loss) before tax	669	99	215	139	(223)	1	900	(10)	889
Income tax (expense) / benefit	(79)	(37)	(37)	(50)	60	-	(143)	10	(132)
	590	62	178	89	(164)	1	757	-	757

**Net income /
(loss)***Inter-segment
underlying
earnings*

(173)	(58)	(59)	272	18
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**Revenues
2014**

Life insurance gross premiums	6,461	3,982	4,859	2,015	-	(70)	17,246	(351)	16,896
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Accident and health insurance	1,874	233	56	163	6	(6)	2,326	(11)	2,316
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General insurance	-	501	-	224	-	-	725	(72)	653
Total gross premiums	8,334	4,716	4,916	2,402	6	(76)	20,298	(433)	19,864

Investment income	3,312	2,568	2,073	234	326	(323)	8,191	(42)	8,148
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Fee and commission income	1,485	324	43	623	-	(237)	2,237	(100)	2,137
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Other revenues	2	-	-	3	5	-	10	(3)	7
Total revenues	13,134	7,608	7,032	3,262	336	(637)	30,735	(578)	30,157

*Inter-segment
revenues*

16	-	-	292	327
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	America	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
Income statement - Underlying earnings 2013									
Underlying earnings before tax	1,314	454	87	227	(109)	(3)	1,968	(50)	1,918
Fair value items	(980)	(41)	(16)	(21)	(61)	-	(1,118)	37	(1,082)
Realized gains / (losses) on investments	110	342	48	-	-	-	500	-	500
Impairment charges	(111)	(40)	(31)	(16)	-	-	(198)	-	(198)
Impairment reversals	67	8	-	-	-	-	75	-	75
Other income / (charges)	72	(36)	(45)	(33)	(11)	-	(52)	6	(47)
Run-off businesses	21	-	-	-	-	-	21	-	21
Income / (loss) before tax	493	687	43	158	(181)	(3)	1,197	(8)	1,189
Income tax (expense) / benefit	(86)	(166)	33	(31)	42	-	(208)	8	(200)
Net income / (loss)	407	521	76	127	(139)	(3)	989	-	989
<i>Inter-segment underlying earnings</i>	(173)	(54)	(59)	257	29				
Revenues 2013									

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

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

Table of Contents**192** Notes to the consolidated financial statements **Note 5**

	Note	2015 1,973	2014 1,856	2013 1,918
Underlying earnings before tax				
Fair value items		(503)	(425)	(967)
Realized gains and (losses) on financial investments	10	349	697	500
Gains and (losses) on investments in real estate	10	145	(4)	(49)
Fair value changes on economic hedges for which no hedge accounting is applied	10	(41)	(799)	65
Ineffective portion of hedge transactions for which hedge accounting is applied	10	8	43	12
Realized gains and (losses) on repurchased debt	10	2	3	-
Net foreign currency gains and (losses)	10	(5)	-	-
Fair value movements of guarantees related to liabilities for insurance contracts	12	(183)	(150)	(143)
DPAC / VOBA offset ¹⁾	14	(31)	(26)	(22)
Impairment (charges)/reversals	15	24	(79)	(296)
Other income / (charges)	11, 12, 14, 17	(917)	(205)	149
Run-off businesses	5	52	(21)	21
Income before tax		873	889	1,189

¹ Including a fair value adjustment of EUR 21 million (2014: EUR 28 million; 2013: EUR 1 million).

Other selected income statement items	America	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total
2015						
Amortization of deferred expenses, VOBA and future servicing rights	767	39	218	123	-	1,147
Depreciation	31	17	22	13	-	84
Impairment charges / (reversals) on financial assets, excluding receivables	(68)	20	-	23	-	(24)
Impairment charges / (reversals) on non-financial assets and receivables	-	2	-	-	-	1
2014						
Amortization of deferred expenses, VOBA and future servicing rights	571	53	216	94	1	936
Depreciation	28	21	17	12	-	78
Impairment charges / (reversals) on financial assets, excluding receivables	(11)	12	-	65	-	66
Impairment charges / (reversals) on non-financial assets and receivables	-	8	6	7	-	21
2013						
Amortization of deferred expenses, VOBA and future servicing rights	572	58	234	143	-	1,007
Depreciation	35	20	13	14	-	82
Impairment charges / (reversals) on financial assets, excluding receivables	48	32	31	17	-	127

Impairment charges / (reversals) on non-financial assets and receivables	(5)	1	-	169	2	167
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Number of employees 2015	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total
Number of employees - headcount	12,701	4,503	2,260	11,767	299	31,530
Of which agents	2,035	277	57	6,064	-	8,433
Of which Aegon's share of employees in joint ventures and associates	545	-	-	1,438	-	1,983
2014						
Number of employees - headcount	12,865	4,426	2,420	8,617	274	28,602
Of which agents	1,802	280	66	3,565	-	5,713
Of which Aegon's share of employees in joint ventures and associates	568	-	-	1,046	-	1,614
2013						
Number of employees - headcount	12,256	4,282	2,400	7,651	302	26,891
Of which agents	1,655	293	63	2,742	-	4,753
Of which Aegon's share of employees in joint ventures and	441	-	-	1,021	-	1,462

associates

Summarized assets and liabilities per segment 2015	Holding						Total
	Americas	The Netherlands	United Kingdom	New Markets	and other activities	Eliminations	
Assets							
Investments							
Investments for account of policyholders	87,620	52,681	13,819	6,128	230	-	160,478
Investments in joint ventures	101,164	26,756	65,337	6,977	-	(8)	200,226
Investments in associates	7	837	-	714	3	-	1,561
Deferred expenses	75	19	9	139	-	-	242
Assets held for sale	9,045	97	2,475	921	9	-	12,547
Other assets	-	-	-	-	-	-	-
Cash and Cash equivalents	18,282	10,928	2,913	2,597	30,691	(32,884)	32,527
	428	6,324	787	732	1,323	-	9,594
Total assets	216,621	97,642	85,341	18,207	32,257	(32,892)	417,175
Liabilities							
Insurance contracts	73,637	32,709	11,159	7,523	91	(2,077)	123,042
	71,322	25,830	12,751	2,776	-	-	112,679

Insurance contracts for account of policyholders							
Investment contracts	9,911	7,340	457	10	-	-	17,718
Investment contracts for account of policyholders							
Liabilities held for sale	29,842	2,424	53,644	4,209	-	-	90,119
Other liabilities	-	-	-	-	-	-	-
Total liabilities	15,583	24,076	2,447	1,462	4,669	(2,118)	46,120
	200,295	92,379	80,459	15,980	4,761	(4,195)	389,678

Table of Contents194 Notes to the consolidated financial statements **Note 5****Summarized assets
and liabilities per
segment
2014**

	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Total
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Assets

Investments	83,519	51,463	13,208	4,806	224	(1)	153,219
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Investments for account of policyholders	91,138	29,209	64,159	6,971	-	(10)	191,467
--	--------	--------	--------	-------	---	------	---------

Investments in joint ventures	9	789	-	670	1	-	1,468
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Investments in associates	91	19	24	6	-	-	140
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Deferred expenses	7,113	114	2,443	699	5	-	10,373
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Assets held for sale	9,532	-	-	349	-	-	9,881
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Other assets	15,951	27,242	2,694	2,506	35,153	(36,238)	47,308
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Cash and Cash equivalents	455	7,382	971	512	1,290	-	10,610
Total assets	207,808	116,217	83,498	16,519	36,674	(36,249)	424,467

Liabilities

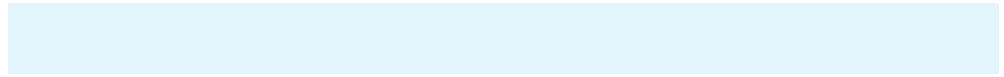
Insurance contracts	65,788	31,795	10,598	5,517	4	(1,776)	111,927
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Insurance contracts for account of policyholders	64,139	28,569	6,804	2,739	-	-	102,250
Investment contracts	9,319	5,663	374	3	-	-	15,359
Investment contracts for account of policyholders	26,999	2,237	58,380	4,233	-	-	91,849
Liabilities held for sale	7,806	-	-	3	-	-	7,810
Other liabilities	16,079	43,208	2,470	1,777	8,877	(4,930)	67,480
Total liabilities	190,130	111,472	78,625	14,271	8,881	(6,706)	396,674

Investments 2015	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Total
Shares	652	136	475	73	124	-	1,460
Debt securities	65,284	23,370	13,185	5,551	-	-	107,390
Loans	10,062	27,692	-	421	88	-	38,263
Other financial assets	10,783	335	160	80	18	-	11,376
Investments in real estate	840	1,148	-	2	-	-	1,990
Investments general account	87,620	52,681	13,819	6,128	230	-	160,478
Shares	-	9,174	17,274	259	-	(8)	26,699
Debt securities	4,967	14,642	11,728	270	-	-	31,606
	96,187	17	32,200	6,441	-	-	134,845

Unconsolidated investment funds							
Other financial assets	10	2,923	3,115	6	-	-	6,054
Investments in real estate	-	-	1,022	-	-	-	1,022
Investments for account of policyholders	101,164	26,756	65,337	6,977	-	(8)	200,226
Investments on balance sheet	188,784	79,437	79,157	13,104	230	(8)	360,704
Off-balance sheet investments third parties	212,704	897	830	131,940	-	-	346,371
Total revenue-generating investments	401,487	80,334	79,987	145,045	230	(8)	707,075
Investments							
Available-for-sale	72,761	22,479	13,534	5,617	18	-	114,409
Loans	10,062	27,692	-	421	88	-	38,263
Financial assets at fair value through profit or loss	105,121	28,119	64,601	7,064	124	(8)	205,020
Investments in real estate	840	1,148	1,022	2	-	-	3,012
Total investments on balance sheet	188,784	79,437	79,157	13,104	230	(8)	360,704
Investments in joint ventures	7	837	-	714	3	-	1,561
Investments in associates	75	19	9	139	-	-	242
Other assets	27,755	17,349	6,175	4,250	32,267	(33,128)	54,668
	216,621	97,642	85,341	18,207	32,501	(33,136)	417,175

**Consolidated total
assets**



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	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Total
Investments 2014							
Shares	636	161	193	28	105	(1)	1,122
Debt securities	63,130	23,250	12,670	4,274	-	-	103,324
Loans	9,187	26,618	-	487	11	-	36,303
Other financial assets	9,845	366	344	16	107	-	10,678
Investments in real estate	721	1,069	-	2	-	-	1,792
Investments general account	83,519	51,463	13,208	4,806	224	(1)	153,219
Shares	-	9,487	17,122	420	-	(10)	27,019
Debt securities	4,585	19,320	12,920	244	-	-	37,070
Unconsolidated investment funds	86,525	-	29,341	6,293	-	-	122,159
Other financial assets	28	401	3,674	13	-	-	4,117
Investments in real estate	-	-	1,101	-	-	-	1,101
Investments for account of policyholders	91,138	29,209	64,159	6,971	-	(10)	191,467
	174,658	80,672	77,367	11,777	224	(11)	344,686
Investments on balance							

sheet

Off-balance sheet investments third parties	139,295	868	570	72,474	-	-	213,208
Total revenue-generating investments	313,953	81,540	77,937	84,251	224	(11)	557,894
Investments							
Available-for-sale	69,851	23,197	12,884	4,284	12	-	110,229
Loans	9,187	26,618	-	487	11	-	36,303
Financial assets at fair value through profit or loss	94,898	29,788	63,381	7,005	200	(11)	195,261
Investments in real estate	721	1,069	1,101	2	-	-	2,893
Total investments on balance sheet	174,658	80,672	77,367	11,777	224	(11)	344,686
Investments in joint ventures	9	789	-	670	1	-	1,468
Investments in associates	91	19	24	6	-	-	140
Other assets	33,050	34,737	6,108	4,067	36,448	(36,238)	78,172
Consolidated total assets	207,808	116,217	83,498	16,519	36,674	(36,249)	424,467
6 Premium income and premiums paid to reinsurers							

	Gross premium income	Premiums paid to reinsurers
2015		
Life	16,969	2,694
Non-life	3,342	286

Total		20,311	2,979
2014			
Life		16,896	2,701
Non-life		2,968	310
Total		19,864	3,011
2013			
Life		17,112	2,756
Non-life		2,827	351
Total		19,939	3,108

Table of Contents196 Notes to the consolidated financial statements [Note 7](#)**7 Investment income**

	2015	2014	2013
Interest income	7,087	6,759	6,842
Dividend income	1,306	1,265	957
Rental income	133	124	110
Total investment income	8,525	8,148	7,909
Investment income related to general account	6,099	5,717	5,632
Investment income for account of policyholders	2,426	2,431	2,277
Total	8,525	8,148	7,909

Included in interest income is EUR 223 million (2014: EUR 265 million; 2013: EUR 238 million) in respect of interest income accrued on impaired financial assets. The interest income on financial assets that are not carried at fair value through profit or loss amounted to EUR 5,951 million (2014: EUR 5,498 million; 2013: EUR 5,437 million).

Total investment income from:	2015	2014	2013
Shares	1,306	1,265	957
Debt securities and money market instruments	5,332	5,067	5,248
Loans	1,760	1,674	1,605
Real estate	133	124	110
Other	(6)	19	(11)
Total	8,525	8,148	7,909
Investment income from financial assets held for general account:	2015	2014	2013
Available-for-sale	4,235	3,889	3,917
	1,760	1,674	1,605

Loans			
Financial assets designated at fair value through profit or loss	115	127	123
Real estate	61	54	52
Derivatives	(96)	(19)	(26)
Other	25	(8)	(39)
Total	6,099	5,717	5,632
8 Fee and commission income			

	2015	2014	2013
Fee income from asset management	1,648	1,406	1,188
Commission income	614	559	548
Other	176	172	214
Total fee and commission income	2,438	2,137	1,950

Included in fee and commission income is EUR 56 million of fees on trust and fiduciary activities (2014: EUR 35 million; 2013: EUR 40 million).

9 Income from reinsurance ceded

	2015	2014	2013
Recovered claims and benefits	2,784	2,604	2,408
Change in technical provisions	309	98	170
Commissions	227	205	260
Total	3,321	2,906	2,838

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10 Results from financial transactions**Results from financial transactions comprise:**

	2015	2014	2013
Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives	(35)	192	370
Realized gains and losses on financial investments	349	697	500
Gains and (losses) on investments in real estate	145	(4)	(49)
Net fair value change of derivatives	123	1,062	(1,011)
Net fair value change on for account of policyholder financial assets at fair value through profit or loss	(110)	11,226	15,571
Net fair value change on investments in real estate for account of policyholders	67	53	(12)
Net foreign currency gains and (losses)	(29)	(21)	9
Net fair value change on borrowings and other financial liabilities	9	5	16
Realized gains and (losses) on repurchased debt	2	3	-
Total	521	13,213	15,393

Net foreign currency gains and (losses) includes a loss of EUR 5 million (2014: nil, 2013: nil) that is classified for segment reporting purposes as non-underlying earnings.

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives comprise:

	2015	2014	2013
Shares	-	100	180
	(24)	31	(11)

Debt securities and money market investments

Other

Total

(12)

(35)

61

192

201

370

Other mainly includes net fair value changes of alternative investments.

Realized gains and losses on financial investments comprise:

Shares

2015

44

2014

197

2013

43

Debt securities and money market investments

346

463

414

Loans

20

35

48

Other

(60)

2

(6)

Total**349****697****500****Realized gains and losses on financial investments comprise:**

Available-for-sale investments

2015

330

2014

662

2013

451

Loans

20

35

48

Total**349****697****500****Net fair value change of derivatives comprise:**

Net fair value change on economic hedges where no hedge accounting is applied

2015

(500)

2014

3,092

2013

(1,166)

Net fair value change on bifurcated embedded derivatives

614

(2,073)

143

Ineffective portion of hedge transactions to which hedge accounting is applied

8

43

12

Total**123****1,062****(1,011)**

Net fair value change on economic hedges where no hedge accounting is applied includes a loss of EUR 139 million related to fair value movements of derivatives (2014: loss of EUR 241 million, 2013: loss of EUR 108 million) that is classified for segment reporting purposes as non-underlying earnings.

Table of Contents**198** Notes to the consolidated financial statements **Note 11****The ineffective portion of hedge transactions to which hedge accounting is applied comprises:**

	2015	2014	2013
Fair value change on hedging instruments in a fair value hedge	(49)	(120)	52
Fair value change on hedged items in a fair value hedge	54	165	(39)
Ineffectiveness fair value hedge	5	45	13
Ineffectiveness cash flow hedges	4	(2)	(1)
Total	8	43	12

Net fair value change on for account of policyholder financial assets at fair value through profit or**loss comprise:**

	2015	2014	2013
Shares	706	1,349	3,857
Debt securities and money market investments	(529)	3,744	(1,090)
Unconsolidated investment funds	(356)	5,625	13,002
Derivatives			
	69	507	(198)
Other	-	2	-
Total	(110)	11,226	15,571

The change of the net fair value change on for account of policyholder financial assets at fair value through profit or loss in 2015 compared to 2014 is mainly driven by equity markets and interest rates movements. Net fair value changes on for account of policyholder financial assets at fair value through profit or loss are offset by changes in technical provisions reported as part of the lines Change in valuation of liabilities for insurance contracts and Change in valuation of liabilities for investment contracts in note 12 Policyholder claims and benefits.

11 Other income

	2015	2014	2013
Other income	83	61	393

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

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

Other income in 2013 mainly reflected two reinsurance recapture transactions totaling EUR 200 million and book gains totaling EUR 176 million related to the sale of joint ventures with Unnim and CAM. The book gain of Unnim of EUR 102 million included an amount of EUR 26 million which was recycled from equity through profit and loss. The net gain of EUR 74 million related to the sale of CAM included a negative amount of EUR 44 million which was recycled from equity through profit and loss.

Other income is fully excluded from underlying earnings for segment reporting purposes (refer to note 2.4 Segment reporting).

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12 Policyholder claims and benefits

	2015	2014	2013
Benefits and claims paid life	20,517	15,827	18,541
Benefits and claims paid non-life	2,128	1,752	1,663
Change in valuation of liabilities for insurance contracts	7,880	17,273	15,144
Change in valuation of liabilities for investment contracts	(6,678)	1,404	2,370
Other	(17)	(42)	(30)
Total	23,830	36,214	37,688

Policyholder claims and benefits includes claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. The lines Change in valuation of liabilities for insurance contracts and Change in valuation of liabilities for investment contracts reflect changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in Results from financial transactions (note 10) of EUR 110 million negative (2014: EUR 11,226 million positive, 2013: EUR 15,571 million positive). In addition, the line Change in valuation of liabilities for insurance contracts includes changes in technical provisions for life insurance contracts of EUR 3,410 million (2014: EUR 7,935 million, 2013: 2,515 million).

The change in valuation of liabilities for insurance contracts includes a loss of EUR 183 million regarding fair value movements of guarantees (2014: loss of EUR 150 million, 2013: loss of EUR 143 million). Furthermore, it includes a loss of EUR 185 million related to other technical results including 2015 model updates (2014: loss of EUR 2 million, 2013: loss of EUR 33 million). The line Other includes policyholder tax. These items are classified for segment reporting purposes as non-underlying earnings.

13 Profit sharing and rebates

	2015	2014	2013
Surplus interest bonuses	2	2	4
Profit appropriated to policyholders	29	15	24
Total	31	17	28

14 Commissions and expenses

	2015	2014	2013
Commissions	3,313	2,992	2,797
Employee expenses	2,280	2,067	2,060
Administration expenses	1,278	1,127	1,103
Deferred expenses	(1,533)	(1,465)	(1,311)
Amortization of deferred expenses	1,052	796	899
Amortization of VOBA and future servicing rights	95	140	108
Total	6,485	5,656	5,656

Included in administration expenses is an amount of EUR 84 million of depreciation that relates to equipment, software and real estate held for own use (2014: EUR 78 million; 2013: EUR 82 million). Minimum lease payments recognized as expense amounted to EUR 19 million (2014: EUR 6 million; 2013: EUR 12 million).

Within employee and administration expenses is an amount of EUR 59 million relating to restructuring charges that is classified as non-underlying earnings for segment reporting purposes (2014: EUR 134 million; 2013: EUR 107 million).

Amortization of deferred expenses included a charge of EUR 28 million (2014: charge EUR 22 million, 2013: charge EUR 35 million), which is classified as non-underlying earnings for segment reporting purposes. This is offset against realized gains and losses and impairments on financial investments.

Amortization of VOBA and future servicing rights include a charge of EUR 3 million (2014: charge EUR 4 million; 2013: gain EUR 13 million) that is classified as non-underlying earnings for segment reporting purposes.

Table of Contents**200** Notes to the consolidated financial statements **Note 14**

Employee expenses	2015	2014	2013
Salaries	1,462	1,295	1,286
Post-employment benefit costs	335	272	292
Social security charges	145	129	133
Other personnel costs	320	337	309
Shares, share appreciation rights, share options	17	33	41
Total	2,280	2,067	2,060

An amount of EUR 51 million is included in employee expenses relating to defined contributions (2014: EUR 43 million; 2013: EUR 39 million).

Long-term incentive plans

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

Variable compensation Identified Staff

Members of the Executive Board and the Management Board as well as other selected jobholders have been defined as 'Identified Staff' in accordance with the rules applicable to them and their interpretation by relevant supervisory authorities. Of these, the Dutch 2015 Act on compensation in the financial sector (Wet beloningsbeleid financiële ondernemingen Wft), the Dutch 2014 Decree on sound remuneration policy (Regeling beheerst beloningsbeleid 2014) and the guidelines issued by the European Banking Authority (EBA) and its predecessor (CEBS) issued under the successive European CRD frameworks (in particular CRD III and IV) are prominent examples. The rules have been adopted in Aegon's Global Remuneration Framework. After the performance period, and based on the framework,

variable compensation, if any, is partially made available and partly deferred. Variable compensation is paid in both cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the average share price on the Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of the plan year. The performance indicators apply over a performance period of one year and consist of Group and/or reporting unit targets (both financial and non-financial) set by the Supervisory Board or the local remuneration committees and personal/strategic targets. The conditional grant of variable compensation is also dependent on continued employment of the individual employee to whom the rights have been granted. An ex-post assessment is applicable to determine whether allocated (unvested) variable compensation should become unconditional or should be adjusted. In addition, in specific circumstances Aegon's Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested. For members of the Executive Board and the Management Board all variable compensation has vested after three years following the performance period. At vesting, the variable compensation is transferred to the individual employees. Additional holding periods of up to three years may apply for vested shares. Members of the Executive Board and the members of the Management Board who are based in the Netherlands are not entitled to execute any transactions regarding the shares for a period of three years following vesting (with the exception of shares sold to meet income tax obligations).

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

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

	2007	2011 ¹⁾	2012 ¹⁾	2013 ¹⁾	2014 ¹⁾	2015 ¹⁾	Total
Number of shares conditionally granted ²⁾	18,506	4,075,460	9,195,284	5,735,046	5,306,037	5,178,633	29,508,966
Number of shares allocated	18,506	6,452,535	13,392,200	8,536,076	4,714,569	-	33,113,886
Unvested at January 1, 2014	9,253	6,015,593	12,660,673	5,735,046	-	-	24,420,565
Number of shares conditionally granted ²⁾	-	-	-	-	5,306,037	-	5,306,037
Number of shares allocated	-	-	-	2,801,030	-	-	2,801,030
Number of shares forfeited	-	59,497	141,702	101,436	-	-	302,635
Number of shares vested	-	4,098,081	271,159	420,597	-	-	4,789,837
Unvested at December 31, 2014	9,253	1,858,015	12,247,812	8,014,043	5,306,037	-	27,435,160
Number of shares conditionally granted ²⁾	-	-	-	-	-	5,178,633	5,178,633
Number of shares allocated	-	-	-	-	(591,468)	-	(591,468)
Number of shares forfeited	-	-	350,398	364,159	74,384	-	788,941
Number of shares vested	-	1,858,015	5,312,631	191,494	267,780	-	7,629,920
	9,253	-	6,584,783	7,458,390	4,372,405	5,178,633	23,603,464

**Unvested at
December 31,
2015**

Average share price used for grant in EUR	4.727	3.126	4.917	6.739	6.106
	3.915 to	2.260 to	3.900 to	5.840 to	5.159 to
Fair value of shares at grant date in EUR	4.581	2.886	4.684	6.658	6.018

¹ Performance year for both Long-term incentive plans and Variable compensation Identified Staff

² Number of shares conditionally granted based on the at target number of grants made that could increase or decrease subject to the actual performance attained.

Share appreciation rights and share options

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

After 2008, no share options or share appreciation rights were granted. As of March 11, 2015 all outstanding share appreciation rights and share options have expired and have not been exercised.

In compliance with regulations under Dutch law, share appreciation rights and share options cannot be exercised in blackout periods.

Share appreciation rights

The following tables present the movements in number of SARs outstanding, as well as the breakdown by the year in which they were granted.

	Number of SARs	Weighted average price in EUR	Weighted average remaining contractual term in years	Aggregate intrinsic value in EUR million
Outstanding at January 1, 2014	287,900	11.35	0.81	-
Forfeited	(9,000)	9.94		
Expired	(113,700)	14.98		
Outstanding at December 31, 2014	165,200	8.93	0.21	-
Forfeited	-	-		
Expired	(165,200)	8.93		

Outstanding at December 31, 2015	-	-	-	-
Exercisable at December 31, 2015	-	-	-	-

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		Outstanding January 1, 2015	Outstanding December 31, 2015	Exercise price in EUR	Exercise period
SARs	Original number granted				
2008	300,300	165,200	-	8.93	until March 11, 2015
Total	300,300	165,200	-		

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

The liability related to SARs is valued at fair value at each balance sheet date. There were no costs related to the share appreciation rights in 2015 (2014: nil; 2013: nil).

Share options

The following tables present the movements in number of share options, as well as the breakdown by the year in which they were granted.

	Number of share options	Weighted average exercise price in EUR	Weighted average remaining contractual term in years	Aggregate intrinsic in EUR million
Outstanding at January 1, 2014				
	8,495,768	11.15	0.84	-
Forfeited/Cancelled	(571,228)	9.96		
Expired	(3,024,454)	14.97		
Outstanding at December 31, 2014	4,900,086	8.93	0.21	-
Forfeited/Cancelled	(1,216,186)	8.93		
Expired	(3,683,900)	8.93		
Outstanding at December 31, 2015	-	-	-	-
Exercisable at December 31, 2015	-	-	-	-

		Outstanding		Exercise	
		Outstanding January 1, 2015	Outstanding December 31, 2015		
Share options	Original number granted			price in EUR	Exercise period
2008	10,269,900	4,900,086	-	8.93	until March 11, 2015
Total	10,269,900	4,900,086	-		

The costs related to the share options amount to EUR nil million (2014: EUR nil million; 2013: EUR 1 million) and are recognized in the income statement as part of Commissions and expenses.

Share appreciation rights and share options

No SARs and share options were granted after 2008. With regard to the SARs and options granted before 2009, no share options were exercised and no SARs were paid during 2013, 2014, and 2015. Similarly, no cash is received from exercise of share options during 2013, 2014, and 2015. As of March 11, 2015 all outstanding share appreciation rights and share options have expired and have not been exercised.

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

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

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15 Impairment charges / (reversals)**Impairment charges / (reversals) comprise:**Impairment charges on financial assets, excluding receivables ¹⁾Impairment reversals on financial assets, excluding receivables ¹⁾Impairment charges and reversals on non-financial assets and receivables ²⁾**Total****2015**

2014

2013

95

132

203

(119)

(66)

(77)

1

21

167

(22)**87****294**

¹ Impairment charges/(reversals) on financial assets, excluding receivables, are excluded from Underlying earnings before tax for segment reporting (refer to note 5 Segment information).

² Of impairment charges on non-financial assets and receivables nil is excluded from underlying earnings before tax for segment reporting (refer to note 5 Segment information) (2014: EUR 13 million and 2013: EUR 170 million).

In 2013, impairment charges on non-financial assets and receivables included the impairment on goodwill and customer related intangibles on the Polish pension business totaling EUR 163 million. Refer to note 21 Intangible assets for more details.

Impairment charges on financial assets, excluding receivables, from:

Shares

Debt securities and money market instruments

Loans

Investments in associates

Investments in joint ventures

2015

2014

2013

4

5

3

32

36

131

37

68

67

-

-

1

21

23

-

Total	95	132	203
Impairment reversals on financial assets, excluding receivables, from:	2015	2014	2013
Debt securities and money market instruments			
	(109)	(56)	(61)
Loans	(9)	(10)	(15)
Total	(119)	(66)	(77)

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

16 Interest charges and related fees

	2015	2014	2013
Subordinated loans			
	33	23	3
Trust pass-through securities			
	9	7	8
Borrowings			
	240	290	321
Other	129	51	22
Total	412	371	355

The interest charges accrued on financial assets and liabilities that are not carried at fair value through profit or loss amounted to EUR 269 million (2014: EUR 242 million; 2013: EUR 239 million).

There are no interest charges and related fees that are classified for segment reporting purposes as non-underlying earnings.

Table of Contents204 Notes to the consolidated financial statements. [Note 17](#)**17 Other charges**

	2015	2014	2013
Other charges	774	172	134

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

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

Other charges of EUR 134 million in 2013 mainly included 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 included a loss of EUR 22 million related to the sale of national independent financial advisor Positive Solutions in the United Kingdom.

Other charges is fully excluded from underlying earnings for segment reporting purposes (refer to note 2.4 Segment reporting).

18 Income tax

	Note	2015	2014	2013
Current tax				
Current year		111	66	374
Adjustments to prior years		(70)	38	(479)
		42	104	(105)
Deferred tax	43			
Origination / (reversal) of temporary differences		93	114	(187)
Changes in tax rates / bases		(40)	(12)	(54)
Changes in deferred tax assets as a result of recognition / write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences		(8)	(63)	1
Non-recognition of deferred tax assets		22	17	65
Adjustments to prior years		53	(28)	479
		120	28	304
Income tax for the period (income) / charge		162	132	200

Adjustments to prior years include shifts between current and deferred tax. In 2013 the shift between current and deferred tax is mainly caused by an agreement with tax authorities, resulting in an increased current tax receivable and a decreased deferred tax asset.

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Reconciliation between standard and effective income tax:

Income before tax

2015

2014

2013

873

889

1,189

Income tax calculated using weighted average applicable statutory rates

219

265

360

Difference due to the effects of:

Non-taxable income

31

(109)

(129)

Non-tax deductible expenses

49

52

33

Changes in tax rate/base

(40)

(12)

(54)

Different tax rates on overseas earnings

6

(22)

(14)

Tax credits

(100)

(35)

(56)

Other taxes

14

43

20

Adjustments to prior years

(17)

10

-

Origination and change in contingencies

3

5

-

Changes in deferred tax assets as a result of recognition / write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences

(8)

(63)

1

Non-recognition of deferred tax assets

22

17

65

Tax effect of (profit) / losses from joint ventures and associates

	(8)	(8)	(5)
Other	(9)	(11)	(21)
	(57)	(132)	(160)
Income tax for the period (income) / charge	162	132	200

The weighted average applicable statutory tax rate for 2015 is 25.1% (2014: 29.8%; 2013: 30.2%). The decrease in weighted average applicable statutory tax rate compared to the prior years is primarily caused by an increase in profits in lower taxed countries.

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

In the UK, the corporate income tax rate decreased from 21% to 20% as from April 1, 2015. As per April 1, 2017 the tax rate in the UK will further decrease to 19%. A beneficial impact of these changes is reflected in the change in tax rate/base. In Spain the corporate income tax rate decreased from 30% to 28% as from 2015 and will further decrease to 25% as from 2016. The impact of the change of the Spanish tax rate was included in the 2014 change in tax rate/base.

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

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

The following table presents income tax related to components of other comprehensive income.

	2015	2014	2013
Items that will not be reclassified to profit and loss:			
Changes in revaluation reserve real estate held for own use			
	(2)	(2)	1
Remeasurements of defined benefit plans	(75)	335	(202)
	(77)	333	(201)
Items that may be reclassified subsequently to profit and loss:			
Gains / losses on revaluation of available-for-sale investments			
	810	(1,752)	1,013
Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments			
	124	148	69
Changes in cash flow hedging reserve	(98)	(364)	192

Movement in foreign currency translation and net foreign investment
hedging reserve

(52) (50) 21

783 (2,018) 1,295

**Total income tax related to components of other comprehensive
income**

706 (1,685) 1,094

Table of Contents**206** Notes to the consolidated financial statements **Note 19****19 Earnings per share****Basic earnings per share**

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

	2015	2014	2013
Net income / (loss) attributable to equity holders	711	756	986
Dividends on preferred shares	-	-	(83)
Coupons on perpetual securities	(111)	(128)	(146)
Coupons on non-cumulative subordinated notes	(28)	(24)	(21)
Net income / (loss) attributable to equity holders for basic earnings per share calculation	572	605	736
Net income / (loss) attributable to common shareholders	568	600	733
Net income / (loss) attributable to common shareholders B	4	4	3
Weighted average number of common shares outstanding (in million)	2,101	2,094	2,035
Weighted average number of common shares B outstanding (in million)	584	580	366
Basic earnings per common share (EUR per share)	0.27	0.29	0.36
Basic earnings per common share B (EUR per share)	0.01	0.01	0.01

Diluted earnings per share

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

The number of share options that has not been included in the weighted average number of common shares used in the calculation of diluted earnings per share amounted to nil (2014: 4,900,086; 2013: 8,495,768). In 2015, 2014 and 2013, the average share price did not exceed the exercise prices in these option contracts. At year end, Aegon has no share options outstanding as all outstanding share options have expired as of March 11, 2015. Aegon has no share options on common shares B.

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

20 Dividend per common share

It will be proposed to the Annual General Meeting of Shareholders on May 20, 2016, absent unforeseen circumstances, to pay a final dividend for the year 2015 of EUR 0.13 per common share. After taking into account the interim dividend 2015 of EUR 0.12 per common share, this will result in a total 2015 dividend of EUR 0.25 per common share. Proposed dividend for the year and proposed final dividend 2015 per common share B are EUR 0.00625 and EUR 0.00325 respectively.

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

57% of holders of common shares elected to receive the cash dividend. The remaining 43% have opted for stock dividend. Aegon repurchased common shares to neutralize the dilutive effect of the 2015 interim dividend paid in shares.

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

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Final dividend 2014

The Annual General Meeting of Shareholders on May 20, 2015, approved a final dividend over 2014 of EUR 0.12 per common share payable in either cash or stock, related to the second half of 2014, paid in the first half of 2015. The stock dividend amounted to one new Aegon common share for every 55 common shares held. The stock dividend and cash dividend are approximately equal in value. Dividend paid on common shares B amounted to 1/40th of the dividend paid on common shares.

Approximately 42% of shareholders elected to receive the stock dividend. The remaining 58% opted for cash dividend. To neutralize the dilutive effect of the 2014 final dividend paid in shares, Aegon executed a program to repurchase 16,279,933 common shares. Between June 17, 2015, and July 14, 2015, these common shares were repurchased at an average price of EUR 6.6324 per share. These shares will be held as treasury shares and will be used to cover future stock dividends.

Interim dividend 2014

The interim dividend 2014 was paid in cash or stock at the election of the shareholder. The stock dividend amounted to one new Aegon common share for every 58 common shares held. The stock dividend and cash dividend are approximately equal in value. The interim dividend was payable as of September 19, 2014. The interim dividend 2014 for common shares B amounted to 1/40th of the dividend paid on common shares.

Approximately 55% of holders of common shares 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 2014 interim dividend paid in shares. Aegon executed a program to repurchase 16,319,939 common shares. Between September 17, 2014, and October 15, 2014, these common shares were repurchased at an average price of EUR 6.4900 per share. These shares are held as treasury shares and will be used to cover future stock dividends.

Final dividend 2013

The Annual General Meeting of Shareholders on May 21, 2014, approved a final dividend over 2013 payable in either cash or stock related to the second half of 2013, paid in the first half of 2014. The cash dividend amounted to EUR 0.11 per common share, the stock dividend amounted to one new Aegon common share for every 59 common shares held. The stock dividend and cash dividend are approximately equal in value. Dividend paid on common shares B amounted to 1/40th of the dividend paid on common shares.

Approximately 60% of holders of common shares elected to receive the cash dividend. The remaining 40% opted for stock dividend. To neutralize the dilutive effect of the 2013 final dividend paid in shares, Aegon executed a program to repurchase 14,488,648 common shares. Between June 20, 2014, and July 17, 2014, these common shares were repurchased at an average price of EUR 6.4300 per share.

Interim dividend 2013

The interim dividend 2013 on common shares was paid in cash or stock at the election of the shareholder. Stock dividend amounted to one new Aegon common share for every 50 common shares held. The stock dividend and cash

dividend were approximately equal in value. The interim dividend was payable as of September 13, 2013. The interim dividend 2013 for common shares B was fully paid in cash.

Approximately 55% of holders of common shares 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.

Table of Contents208 Notes to the consolidated financial statements **Note 21****21 Intangible assets****Net book value**

	Goodwill	VOBA	Future servicing rights	Software	Other	Total
At January 1, 2014	211	1,768	239	50	4	2,272
At December 31, 2014	216	1,546	255	50	5	2,073

At December 31, 2015**Cost**

	299	1,682	57	61	12	2,110
At January 1, 2015						
Additions	412	6,757	657	336	80	8,242
Acquisitions through business combinations	-	2	-	33	17	52
Capitalized subsequent expenditure	66	-	5	-	-	71
Disposals	-	-	-	2	-	2
Net exchange differences	-	-	(398)	(1)	-	(399)
	28	703	49	11	9	801
At December 31, 2015	507	7,462	314	381	105	8,769
Accumulated amortization, depreciation and impairment losses						
At January 1, 2015	197	5,211	402	285	75	6,169
Amortization through income statement	-	117	12	26	1	156

Shadow accounting adjustments	-	(102)	-	-	-	(102)
Disposals	-	-	(184)	(1)	-	(185)
Impairment losses	-	-	-	-	9	9
Net exchange differences	12	555	27	10	8	612
At December 31, 2015	208	5,780	257	320	93	6,659

Cost

At January 1, 2014	388	6,758	596	278	69	8,090
Additions	-	1	4	23	2	30
Acquisitions through business combinations	2	-	-	-	-	2
Capitalized subsequent expenditure	-	-	-	2	-	2
Disposals	-	-	-	(5)	-	(5)
Net exchange differences	28	793	57	12	9	899
Transfers to disposal groups	-	(795)	-	-	-	(795)
Other movements	(5)	(2)	-	26	-	19
At December 31, 2014	412	6,757	657	336	80	8,242
Accumulated amortization, depreciation and impairment losses						

impairment losses

At January 1, 2014	177	4,991	358	228	66	5,819
Amortization through income statement	-	123	17	24	-	164
Shadow accounting adjustments	-	72	-	-	-	72
Disposals	-	-	-	(5)	-	(5)
Impairment losses	14	2	-	-	-	15
Net exchange differences	10	618	27	11	9	675
Transfers to disposal groups	-	(592)	-	-	-	(592)
Other movements	(4)	(2)	-	28	-	22
At December 31, 2014	197	5,211	402	285	75	6,169

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

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. VOBA and future servicing rights are amortized over the term of the related insurance contracts, which can vary significantly depending on the maturity of the acquired portfolio. VOBA currently recognized is amortized over an average period of 24 years, with an average remaining amortization period of 10 years (2014: 10 years). Future servicing rights are amortized over an average period up to 30 years, of which 10 years remain at December 31, 2015 (2014: 9 years). Software is generally depreciated over an average period of 5 years. At December 31, 2015, the remaining average amortization period was 3 years (2014: 3 years).

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Goodwill

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

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

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

	2015	2014
Americas		
- USA	202	121
New Markets		
- Central & Eastern Europe	39	41
- Other New Markets	35	31
Other	23	22

At December 31

	299	216
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Goodwill in Aegon USA is allocated to its divisions. Value in use calculations of Aegon USA have been actuarially determined based on business plans covering a period of typically five years and pre-tax risk adjusted discount rates. The value in use test in the USA for the Investments & Retirement cash-generating unit (EUR 134 million; 2014: EUR 120 million) assumes business plans covering a period of five years further extrapolated to ten years where the new business levels for years 6-10 assumed a 5% growth rate (2014: 5%) and pre-tax risk adjusted discount rate of 17% (2014: 17%).

To determine the recoverable amounts of the cash generating units of Aegon Central & Eastern Europe (CEE), value in use was calculated, and compared to the carrying amounts. Value in use has been determined based on a business plan covering a period of typically 5 years further extrapolated to 20 years where the new business levels for years 6-20 assumed a growth rate based on the business plan of the fifth year, prudentially decreased by 20%-40% (2014: 15%-20%). Other key assumptions used for the calculation were pre-tax risk adjusted discount rate of 8.4%-16.4% (2014: 9.0%-16.2%), new business contribution, renewals, asset fees, investment return, persistency and expenses. Operating assumptions are best estimate assumptions and based on historical data where available. Economic assumptions are based on observable market data and projections of future trends.

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

VOBA

The movement in VOBA over 2015 can be summarized and compared to 2014 as follows:

	2015	2014
At January 1	1,546	1,768
Additions	2	1
Amortization / depreciation through income statement	(117)	(123)
Shadow accounting adjustments	102	(72)
Impairment losses	-	(2)
Net exchange differences	149	176
	-	(203)

Transfers to disposal groups
At December 31

1,682	1,546
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A geographical summary of the lines of business to which the VOBA is allocated is as follows:

	Americas	The Netherlands	United Kingdom	New Markets	Total
2015					
Life	1,036	-	-	10	1,046
Individual savings and retirement products	189	-	-	-	189
Pensions	11	27	369	-	406
Distribution	-	10	-	-	10
Run-off businesses	31	-	-	-	31
Total VOBA	1,267	36	369	10	1,682

2014

Life	909	-	-	10	919
Individual savings and retirement products	179	-	-	-	179
Pensions	11	31	373	-	415
Distribution	-	11	-	-	11
Run-off businesses	22	-	-	-	22
Total VOBA	1,121	42	373	10	1,546

Future servicing rights

Future servicing rights reduced compared to December 31, 2014 following the sale of Clark Consulting in the third quarter of 2015.

22 Investments

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

	Note	2015	2014
Available-for-sale (AFS)		114,409	110,229
Loans		38,263	36,303
Financial assets at fair value through profit or loss (FVTPL) ¹⁾		5,816	4,895
Total financial assets, excluding derivatives	22.1	158,488	151,427
Investments in real estate	22.2	1,990	1,792
Total investments for general account		160,478	153,219

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

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22.1 Financial assets, excluding derivatives

	AFS	FVTPL	Loans	Total	Fair value
2015					
Shares	820	640	-	1,460	1,460
Debt securities	105,151	2,239	-	107,390	107,390
Money market and other short-term investments	7,141	303	-	7,444	7,444
Mortgage loans	-	-	32,899	32,899	37,648
Private loans	-	-	2,847	2,847	3,165
Deposits with financial institutions	-	-	106	106	106
Policy loans	-	-	2,201	2,201	2,201
Other	1,297	2,635	210	4,141	4,141
At December 31, 2015	114,409	5,816	38,263	158,488	163,555

2014

Shares	623	499	-	1,122	1,122
Debt securities	101,497	1,826	-	103,324	103,324
	6,799	500	-	7,299	7,299

Money market and other short-term investments

Mortgage loans	-	-	31,729	31,729	36,692
Private loans	-	-	2,058	2,058	2,454
Deposits with financial institutions	-	-	349	349	349
Policy loans	-	-	2,028	2,028	2,028
Other	1,310	2,070	139	3,519	3,519
At December 31, 2014	110,229	4,895	36,303	151,427	156,785

Of the debt securities, money market and other short-term investments, mortgage loans and private loans EUR 14,828 million is current (2014: EUR 13,998 million).

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

Other

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

At January 1	2015 (249)	2014 (240)
Addition charged to income statement	(37)	(68)
Reversal to income statement	9	10
Amounts written off	33	46
Net exchange differences	(5)	3
Other	106	-
At December 31	(142)	(249)

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

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

Table of Contents212 Notes to the consolidated financial statements [Note 22](#)**22.2 Investments in real estate**

	2015	2014
At January 1	1,792	1,532
Additions	77	369
Subsequent expenditure capitalized	7	7
Transfers from other headings	24	18
Disposals	(163)	(224)
Fair value gains / (losses)	145	(4)
Net exchange differences	83	91
Other	25	3
At December 31	1,990	1,792

In 2015, 95% of the value of Aegon's properties, both for general account and for account of policyholders, were appraised (2014: 78%), of which 99% was performed by independent external appraisers (2014: 100%).

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

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

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

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Rental income of EUR 61 million (2014: EUR 54 million; 2013: EUR 52 million) is reported as part of investment income in the income statement. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to EUR 97 million (2014: EUR 72 million; 2013: EUR 80 million). In 2015, EUR 1 million of direct operating expenses is related to investment properties that did not generate rental income during the period (2014: EUR 11 million; 2013: nil).

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

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

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

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23 Investments for account of policyholders

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

	Note	2015	2014
Shares		26,699	27,019
Debt securities		31,606	37,070
Money market and other short-term investments		1,907	795
Deposits with financial institutions		1,222	2,908
Unconsolidated investment funds		134,845	122,159
Other		2,925	415
Total investments for account of policyholders at fair value through profit or loss, excluding derivatives ¹⁾		199,204	190,366
Investments in real estate	23.1	1,022	1,101
Total investments for account of policyholders		200,226	191,467

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

23.1 Investments in real estate for account of policyholders

	2015	2014
At January 1	1,101	996
Additions	271	56

Subsequent expenditure capitalized	9	10
Disposals	(488)	(86)
Fair value gains / (losses)	67	53
Net exchange differences	60	73
At December 31	1,022	1,101

The investment property is leased out under operating leases.

Rental income of EUR 72 million (2014: EUR 70 million; 2013: EUR 59 million) is reported as part of investment income in the income statement. Direct operating expenses relating to investments in real estate for account of policyholder amounted to EUR 7 million in 2015 (2014: EUR 6 million, 2013: EUR 8 million). There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

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

24 Derivatives

	Derivative asset		Derivative liability	
	2015	2014	2015	2014
Derivatives for general account				
Derivatives not designated in a hedge	9,001	24,962	10,068	24,571
Derivatives designated as fair value hedges	44	39	188	183
Derivatives designated as cash flow hedges	1,516	1,421	331	279
Derivatives designated as Net foreign investment hedges	82	762	77	789
	10,643	27,183	10,664	25,823
Derivatives for account of policyholders				
Derivatives not designated in a hedge	903	830	226	226
	903	830	226	226

Total derivatives ¹⁾	11,545	28,014	10,890	26,048
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¹ Refer to note 47 Fair value for a summary of all financial assets and financial liabilities at fair value through profit or loss.

Table of Contents**214** Notes to the consolidated financial statements **Note 24**

The fair value of derivatives on both the asset and liability side of the consolidated statement of financial position decreased during 2015 mainly due to the unwind of mutually offsetting derivatives and changes in interest rates and other market movements during the year. See note 47 Fair value for details on fair value measurement of derivatives.

Of the derivatives EUR 726 million (2014: EUR 1.247 million) and EUR 1.179 million (2014: EUR 2.591 million) are current derivative assets and liabilities respectively.

Aegon the Netherlands has a derivative position to partially hedge its longevity risk. The derivative, with a notional amount of EUR 12 billion, becomes in the money if - in 2032 - realized mortality rates are more than 7.5% lower than pre-defined mortality tables. To further protect the longevity position of Aegon the Netherlands and combining this with protection for catastrophe mortality in the US, Aegon bought an additional longevity index derivative. This derivative will pay out in 2035 if some combination of higher than expected mortality rates in the United States and/or lower than expected mortality rates in the Netherlands persists over the next 20 years from 2013 and, at that time, is expected to continue to do so.

As a next step in the hedge program Aegon the Netherlands bought a third longevity hedge in 2015. The floating leg is a single payout in 2065 and is linked to an index which is constructed as the aggregate benefit payments over the term of 50 years on an underlying book of Dutch annuities of EUR 15 billion, which includes a significant portion of deferred annuities. The hedge provides out-of-the-money protection. In 2015, Aegon entered into the first tranche of this hedge for an amount of EUR 6 billion with Canada Life Re. This first tranche covers 40% of the best estimate value of liabilities of EUR 15 billion.

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

Use of derivatives**Derivatives not designated in a hedge - general account**

Derivatives not designated in a hedge	Derivative asset		Derivative liability	
	2015	2014	2015	2014
general account				
Derivatives held as an economic hedge	8,826	24,797	7,875	21,474
Bifurcated embedded derivatives	32	20	2,172	3,123
Other	143	145	22	(26)
Total	9,001	24,962	10,068	24,571

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

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

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CDSs

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

	2015		2014	
	Notional	Fair value	Notional	Fair value
CDSs				
CDSs	4,401	23	3,119	60
Total	4,401	23	3,119	60

	2015		2014	
	Notional	Fair value	Notional	Fair value
Credit derivative disclosure by quality				
AA	779	5	362	5
A	407	3	735	10
BBB	2,866	12	1,789	27
BB	310	2	207	16
B or lower	40	1	26	2
Total	4,401	23	3,119	60

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

Derivatives designated as fair value hedges

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

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

Aegon has entered into cross-currency interest rate swap agreements that effectively convert certain foreign currency fixed-rate and floating-rate assets and liabilities to US dollar floating-rate assets and liabilities. These agreements

involve the exchange of the underlying principal amounts.

For the years ended December 31, 2015, 2014, and 2013, Aegon recognized gains and (losses) related to the ineffectiveness portion of designated fair value hedges of EUR (17) million, EUR 45 million and EUR 10 million respectively. No portion of derivatives was excluded when assessing hedge effectiveness.

[Derivatives designated as cash flow hedges](#)

Aegon has entered primarily into interest rate swap agreements that effectively convert certain variable-rate assets and liabilities to a fixed-rate basis in order to match the cash flows of the assets and liabilities within Aegon's portfolio more closely. These agreements involve the payment or receipt of variable-rate interest amounts in exchange for fixed-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. Aegon hedges its exposure to the variability of future cash flows from the interest rate movements for terms up to 29 years for hedges converting existing floating-rate assets and liabilities to fixed-rate assets.

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Aegon uses forward starting interest rate swap agreements to hedge the variability in future cash flows associated with the forecasted purchase of fixed-income assets. These agreements reduce the impact of future interest rate changes on the forecasted transaction. Fair value adjustments for these interest rate swaps are deferred and recorded in equity until the occurrence of the forecasted transaction at which time the interest rate swaps will be terminated. The accumulated gain or loss in equity will be amortized into investment income as the acquired asset affects income. Aegon hedges its exposure to the variability of future cash flows from interest rate movements for terms up to 28 years. The cash flows from these hedging instruments are expected to affect the profit and loss for approximately the next 37 years. For the year ended December 31, 2015, the contracts for which cash flow hedge accounting was terminated resulted in deferred gains of EUR 388 million (2014: EUR 146 million) that are recognized directly in equity to be reclassified into net income during the period when the cash flows occur of the underlying hedged items. During the year ended December 31, 2015, none of Aegon's cash flow hedges were discontinued, as it was highly probable that the original forecasted transactions would occur by the end of the originally specified time period documented at the inception of the hedging relationship. Aegon projects investment needs many years into the future in order to support the insurance liabilities and pay all contractual obligations arising from the policies in force today.

In addition, Aegon also makes use of cross currency swaps to convert variable or fixed foreign currency cash flows into fixed cash flows in local currencies. The cash flows from these hedging instruments are expected to occur over the next 12 years. These agreements involve the exchange of the underlying principal amounts.

For the year ended December 31, 2015, Aegon recognized a gain of EUR 4 million of hedge ineffectiveness on cash flow hedges. In 2014 and 2013, respectively, losses of EUR 2 million and EUR 1 million as a result of hedge ineffectiveness were recorded in the income statement. In 2015, EUR 13 million gain was reclassified from equity into investment income (2014: EUR 12 million gain, 2013: EUR 26 million gain). The amount of deferred gains or losses to be reclassified from equity into net income during the next 12 months is expected to be EUR 44 million gain.

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

	< 1 year	1	5 years	5	10 years	> 10 years	2015 Total
Cash inflows	481		1,647		1,395	6,394	9,917
Cash outflows	-		1		1	3	5
Net cash flows	481		1,646		1,394	6,390	9,911
	< 1	1	5				
	year	5 years	10 years	> 10 years			2014 Total
Cash inflows	553	1,677	1,348	5,421			8,999
Cash outflows	-	1	1	3			5
Net cash flows	553	1,676	1,347	5,418			8,994
Net foreign investment hedges							

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

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25 Investments in joint ventures

	2015	2014
At January 1	1,468	1,426
Additions	38	100
Disposals	-	(47)
Share in net income	142	56
Share in changes in joint ventures equity (note 32.6)	(8)	22
Impairment losses	(21)	(23)
Dividend	(68)	(74)
Net exchange difference	10	9
At December 31	1,561	1,468

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

Caja Badajoz Vida

On September 3, 2014, Aegon reached an agreement with Ibercaja Banco S.A. to sell its 50% stake in its life insurance partnership originally established with Caja Badajoz Vida for a consideration of EUR 42 million. The sale resulted in a book gain of EUR 7 million. Upon disposal an amount of EUR 12 million related to a positive revaluation reserve has been recycled from equity through profit and loss account. The transaction with Ibercaja Banco S.A. was completed in the third quarter of 2014 after obtaining regulatory approval.

[Strategic partnership with Santander Totta](#)

On July 30, 2014, Aegon signed a new 25-year agreement to distribute both protection and general insurance products through Banco Santander Totta's approximately 600 branches in Portugal. The transaction with Banco Santander Totta was completed in the fourth quarter of 2014 after obtaining regulatory approval. Under the terms of the agreement, Aegon acquired a 51% stake in both a life insurance company as well as a non-life insurance company for a consideration of EUR 42.5 million.

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Aegon considers its investment in AMVEST Vastgoed B.V. (AMVEST) a material joint venture. The summarized financial information presented in the following table is included in the IFRS financial statements of AMVEST on a 100% basis.

	AMVEST	
	2015	2014
Summarized statement of financial position		
Cash and cash equivalents	176	111
Other current assets	206	221
Total current assets	382	332
Non-current assets		
	2,070	1,739
Total assets	2,452	2,071
Other current liabilities	138	55
Total current liabilities	138	55
Non-current financial liabilities excluding trade payables and other provisions		
	426	428
Other non-current liabilities	-	10
Total non-current financial liabilities	426	438
Total liabilities	564	494
Net assets	1,888	1,577
Summarized statement of comprehensive income		
Revenue	78	73
Results from financial transactions	133	(19)
Interest expense	(10)	(11)
Profit or loss	183	40
Income tax (expense) or income	(1)	6
Post-tax profit or (loss)	182	46
Other comprehensive income	5	-

Total comprehensive income	187	46
Dividends received	43	59

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

	AMVEST	
	2015	2014
Net assets of joint venture as presented above	1,888	1,577
Group share of net assets of joint venture, excluding fair value adjustments	837	789
Carrying amount	837	789

Summarized financial information of other joint ventures

	2015	2014
Post-tax profit or loss	66	33
Other comprehensive income	(10)	22
Total comprehensive income	56	55

Carrying amount	724	679
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The summarized financial information of other joint ventures presented above is based on the Group's relative holding.

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26 Investments in associates

	2015	2014
At January 1	140	470
Additions	138	9
Disposals	(15)	-
Share in net income	5	24
Share in changes in associate's equity (note 32.6)	(1)	7
Dividend	(8)	(1)
Net exchange difference	(19)	3
Revaluation reserve recycled through profit or loss	-	(18)
Transfers to disposal groups	-	(353)
Other	-	(1)
At December 31	242	140

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

La Banque Postale

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

La Mondiale Participations

On March 3, 2015, Aegon completed the sale of its 35% share in La Mondiale Participations following the granting of approval by the French Competition Authority (Autorité de la Concurrence). The agreement to sell Aegon's stake in La Mondiale Participations to La Mondiale for EUR 350 million was announced on November 24, 2014. Proceeds from the sale were added to Aegon's excess capital buffer. In 2014, an amount of EUR 353 million was transferred to held for sale.

Summarized financial information of associates

	December 31, 2015	December 31, 2014
Post-tax profit or loss	5	5
Other comprehensive income	(1)	2
Total comprehensive income	5	7
Carrying amount	242	140

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

27 Reinsurance assets

Assets arising from reinsurance contracts related to:	2015	2014
Life insurance general account	9,677	8,184
Life insurance for account of policyholders	64	99
Non-life insurance	1,503	1,297
Investment contracts	12	13
At December 31	11,257	9,593

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

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EUR 18 million of the reinsurance assets are current (2014: EUR 11 million).

Movements during the year in reinsurance assets**relating to life insurance:**

	Life insurance Life insurer for account of	general account policyholders	Total life insurance
At January 1, 2015	8,184	99	8,283
Gross premium and deposits existing and new business	2,257	67	2,325
Unwind of discount / interest credited	373	4	377
Insurance liabilities released	(2,748)	(112)	(2,860)
Fund charges released	(10)	-	(10)
Changes to valuation of expected future benefits	23	-	23
Policy transfers	647	-	647
Net exchange differences	910	6	916
Other movements	40	-	40
At December 31, 2015	9,677	64	9,741
At January 1, 2014	8,859	90	8,949
Gross premium and deposits existing and new business	2,249	63	2,311
Unwind of discount / interest credited	345	15	360
Insurance liabilities released	(3,253)	(75)	(3,328)
Fund charges released	(4)	-	(4)
Changes to valuation of expected future benefits	(22)	-	(22)
Policy transfers	(22)	-	(22)
Net exchange differences	1,037	6	1,044
Transfers to disposal groups	(1,015)	-	(1,015)
Transfer to / (from) insurance contracts for account of policyholders	8	-	8
At December 31, 2014	8,184	99	8,283

Movements during the year in reinsurance assets relating to non-life insurance:

	2015	2014
At January 1	1,297	1,093
Gross premium and deposits existing and new business	126	126
Unwind of discount / interest credited	80	61
Insurance liabilities released	(110)	(100)
Changes to valuation of expected future benefits	1	28
Changes in unearned premiums	(44)	(63)
Incurred related to current year	77	63
Incurred related to prior years	41	21
Release for claims settled current year	(8)	(4)
Release for claims settled prior years	(88)	(82)

Change in IBNR	(5)	(11)
Shadow accounting adjustment	-	(13)
Net exchange differences	147	153
Other movements	(10)	26
At December 31	1,503	1,297

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28 Deferred expenses

	2015	2014
DPAC for insurance contracts and investment contracts with discretionary participation features	11,649	9,523
Deferred cost of reinsurance	431	441
Deferred transaction costs for investment management services	467	409
At December 31	12,547	10,373
Current	1,038	843
Non-current	11,509	9,530

	DPAC	Deferred costs of reinsurance	Deferred transaction costs
At January 1, 2015	9,523	441	409
Costs deferred during the year	1,485	-	48
Disposal of group assets	(34)	-	-