

AEGON NV  
Form 6-K  
April 15, 2016  
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**Securities and Exchange Commission**

Washington, D.C. 20549

**Form 6-K**

Report of Foreign Issuer

Pursuant to Rule 13a-16 of 15d/16  
of the Securities Exchange Act of 1934

April 2016

**AEGON N.V.**

Aegonplein 50  
2591 TV THE HAGUE  
The Netherlands

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Aegon's Supplemental Annual Report 2015, dated April 14, 2016, is included as appendix and incorporated herein by reference. This Supplemental Annual Report is based on Aegon's 2015 Annual Report on Form 20-F dated March 25, 2016 and has been enhanced with the impacts, to all periods reported, of voluntary accounting policy changes related to reinsurance transactions that are entered into as part of a plan to exit a business as well as insurance accounting for Aegon's business in the United Kingdom; the changes in the United Kingdom 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 and changes to the segment reporting disclosures by aligning the disclosure with the current managerial view to geographical areas and underlying businesses.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEGON N.V. (Registrant)

(Registrant)

Date: April 14, 2016

By /s/ J.H.P.M. van Rossum

J.H.P.M. van Rossum

Executive Vice President and  
Corporate Controller

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2 Strategic information **Introduction**

# **Introduction**

## **Filing**

This document contains Aegon's Supplemental Annual Report 2015 (hereafter referred to as Supplemental Annual Report). This Supplemental Annual Report is based on Aegon's 2015 Annual Report on Form 20-F dated March 25, 2016 and has been enhanced with the impacts, to all periods reported, of:

- ⌚ Voluntary accounting policy changes related to reinsurance transactions that are entered into as part of a plan to exit a business as well as insurance accounting for Aegon's business in the United Kingdom; the changes in the United Kingdom 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 (hereafter together referred to as voluntary accounting policy changes); and
- ⌚ Changes to the segment reporting disclosures by aligning the disclosure with the current managerial view to geographical areas and underlying businesses (hereafter referred to as segment reporting changes).

The voluntary accounting policy changes and the segment reporting changes are effective January 1, 2016 and were announced on January 13, 2016 at Aegon's Analyst & Investor Conference. Compared to Aegon's 2015 Annual Report on Form 20-F, no changes have been processed other than the impact of the retrospective application of the voluntary accounting policy changes and the segment reporting changes.

Note 2.1.2 to the consolidated financial statements (pages 136-140) provides a comprehensive overview of the impact of the changes to Aegon's primary schedules of the financial statements.

This Supplemental Annual Report will be furnished with the United States Securities and Exchange Commission (SEC) on Form 6-K.

## **About this report**

This report is 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 Dutch Civil Code for the year ended December 31, 2015, and includes the impacts of the retrospective application of the voluntary accounting policy changes and segment reporting changes, all of which are adopted per January 1, 2016, for Aegon N.V. (the company) and its subsidiaries (collectively known as Aegon).

This report presents the Consolidated Financial Statements of Aegon (pages 128-309) and the Parent Company Financial Statements of Aegon (pages 311-325).

## **Presentation of certain information**

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

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



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Aegon prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the SEC, including financial information contained in this Supplemental Annual Report. 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 Supplemental Annual Report.

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.

### **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.

### **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.

**Tom Grondin (1969, Canadian)<sup>1</sup>**

[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.

<sup>1</sup> 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.

**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.

**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.



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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; Central & Eastern Europe; Spain & Portugal; Asia and Aegon Asset Management.

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**Selected financial data**

The financial results in this Supplemental 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 128-309) of this Supplemental Annual Report.

<b>Selected consolidated income statement information</b> In EUR million (except per share amount) <b>Amounts based upon IFRS</b>	<b>2015<sup>1)</sup></b>	2014 <sup>1)</sup>	2013 <sup>1)</sup>	2012 <sup>1)</sup>	2011 <sup>1)</sup>
Premium income	22,925	19,864	19,939	19,049	19,521
Investment income	8,525	8,148	7,909	8,413	8,167
Total revenues <sup>2)</sup>	33,902	30,157	29,805	29,327	29,159
Income/ (loss) before tax	(514)	916	1,236	2,024	1,036
<b>Net income/ (loss)</b>	<b>(431)</b>	<b>766</b>	<b>1,003</b>	<b>1,628</b>	<b>937</b>
<b>Earnings per common share</b>					
Basic	(0.27)	0.29	0.37	0.72	(0.03)
Diluted	(0.27)	0.29	0.37	0.72	(0.03)

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**Earnings per common share B**

Basic	(0.01)	0.01	0.01	-	-
Diluted	(0.01)	0.01	0.01	-	-

<sup>1</sup> Amounts have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

<sup>2</sup> Excluded from the income statements prepared in accordance with IFRS are receipts related to investment-type annuity products and investment contracts.

**Selected consolidated balance sheet information**

In million EUR (except per share amount)

**Amounts based upon IFRS**

	2015 <sup>1)</sup>	2014 <sup>1)</sup>	2013 <sup>1)</sup>	2012 <sup>1)</sup>	2011 <sup>1)</sup>
Total assets	415,415	424,112	351,523	362,663	342,731
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	22,441	23,847	17,589	20,913	17,424

<sup>1</sup> Amounts have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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<b>Number of common shares</b> In thousands	<b>2015</b>	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	-
<b>Balance at end of period</b>	<b>2,147,037</b>	<b>2,145,948</b>	<b>2,131,459</b>	<b>1,972,030</b>	<b>1,909,654</b>

<b>Number of common shares B</b> In thousands	<b>2015</b>	2014	2013	2012	2011
Balance at January 1	581,326	579,005	-	-	-
Share issuance	3,696	2,320	579,005	-	-
<b>Balance at end of period</b>	<b>585,022</b>	<b>581,326</b>	<b>579,005</b>	-	-

**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.

<b>Year</b>	EUR per common share <sup>1)</sup>			USD per common share <sup>1)</sup>		
	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

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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 <sup>2)</sup>	0.25	0.13		

<sup>1</sup> Paid at each shareholder's option in cash or in stock.

<sup>2</sup> Proposed.

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

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

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**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:

<b>Closing rates</b>	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:

<b>Year ended December 31,</b>	<b>Average rate <sup>1)</sup></b>
2011	1.4002
2012	1.2909
2013	1.3303
2014	1.3210
2015	1.1032

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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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# **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.

## **Europe**

### **The Netherlands**

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

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

**Non-life:** General insurance, consisting mainly of automotive, liability, disability, household insurance, and fire protection.

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

### **United Kingdom**

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**Life:** Immediate annuities, individual protection products, such as term insurance, critical illness, income protection and international/offshore bonds.

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

### Central & Eastern Europe

Activities in the Czech Republic, Hungary, Poland, Romania, Slovakia, 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

#### High net worth businesses in Hong Kong and Singapore

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

#### Aegon Direct & Affinity Marketing Services

Full range of direct insurance solution from product design, customer analytics insights, marketing campaign design and multi-channel product distribution to policy administration and claims management.

#### Strategic partnerships

Joint ventures in China and India offering (term) life insurance and savings products, and in Japan offering variable annuities.

### Aegon Asset Management

#### Americas

Investment products covering third-party customers, insurance-linked solutions, and Aegon's own insurance companies.

#### The Netherlands

Investment products covering third-party customers, insurance-linked solutions, and Aegon's own insurance companies in addition to manager selection and tailored advice on balance sheet solutions for the pension market.

#### United Kingdom

Fixed income, equities, real estate and multi-asset solutions to Aegon's own insurance companies as well as external UK and international customers.

#### Rest of World

Asset management activities in Central & Eastern Europe and Spain & Portugal.

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**Strategic partnerships**

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

In France, Aegon Asset Management has strategic partnership with La Banque Postale Asset Management of which it owns a 25% stake.

**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

Europe

Asia

Asset Management

Holding and other activities

**Underlying earnings before tax**

Fair value items

Gains / (losses) on investments

Net impairments

Other income / (charges)

	2015	2014	%
<b>Net underlying earnings</b>	<b>1,431</b>	1,416	1%
Tax on underlying earnings	358	449	(20%)
<b>Underlying earnings before tax geographically</b>			
Americas	1,200	1,134	6%
Europe	559	771	(27%)
Asia	20	(17)	-
Asset Management	170	115	48%
Holding and other activities	(161)	(138)	(17%)
<b>Underlying earnings before tax</b>	<b>1,789</b>	<b>1,865</b>	<b>(4%)</b>
Fair value items	(500)	(1,366)	63%
Gains / (losses) on investments	346	697	(50%)
Net impairments	49	(34)	-
Other income / (charges)	(2,254)	(240)	-
	88	6	-

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Run-off businesses			
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(482)	927	-
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	33	10	-
Income tax	51	(161)	-
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	(33)	(10)	-
<b>Net income</b>	<b>(431)</b>	<b>766</b>	<b>-</b>
Commissions and expenses	6,916	5,865	18%
of which operating expenses	3,734	3,312	13%

This Supplemental 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

	<b>2015</b>	2014	%
Americas	599	552	9%
Europe	1,172	1,379	(15%)
Asia	173	114	52%
<b>Total recurring plus 1/10 single</b>	<b>1,944</b>	<b>2,045</b>	<b>(5%)</b>

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

Amounts in EUR millions

Americas	<b>2015</b>	2014	%
	36,999	31,849	16%
Europe	6,075	3,716	63%
Asia	408	526	(22%)
Asset Management	33,722	19,340	74%
<b>Total gross deposits</b>	<b>77,205</b>	<b>55,431</b>	<b>39%</b>

**Worldwide revenues geographically 2015**

Amounts in EUR millions	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Holding, other activities and eliminations	Segment total	Associates and Joint Ventures eliminations	Consolidated
Total life insurance gross premiums	7,046	2,240	8,465	477	174	1,713	-	(102)	20,013	(431)	19,583
Accident and health insurance premiums	2,266	234	47	1	64	105	-	-	2,717	(14)	2,703
General insurance premiums	-	473	-	164	80	-	-	2	720	(80)	640



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Total gross premiums	9,312	2,947	8,512	642	317	1,819	-	(100)	23,450	(524)	22,925
Investment income	3,680	2,277	2,331	45	41	194	7	2	8,576	(51)	8,525
Fees and commission income	1,704	351	98	39	13	62	650	(284)	2,633	(195)	2,438
Other revenue	9	-	-	-	2	-	-	7	19	(5)	14
<b>Total revenues</b>	<b>14,705</b>	<b>5,575</b>	<b>10,941</b>	<b>726</b>	<b>373</b>	<b>2,076</b>	<b>657</b>	<b>(375)</b>	<b>34,677</b>	<b>(775)</b>	<b>33,902</b>
Number of employees, including agent employees	12,701	4,503	2,478	2,470	534	7,163	1,382	299	31,530		

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

Amounts in EUR millions

	2015	2014	%
Life	757	652	16%
Individual Savings & Retirement	544	657	(17%)
Pensions	440	518	(15%)
Non-life	17	46	(62%)
Distribution	22	15	50%
Asset management	170	115	48%
Other	(161)	(138)	(17%)
<b>Underlying earnings before tax</b>	<b>1,789</b>	<b>1,865</b>	<b>(4%)</b>

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

Aegon's net loss in 2015 amounted to EUR 431 million. Underlying earnings before tax declined to EUR 1,789 million, primarily impacted by lower earnings in the United Kingdom from the write down of deferred policy acquisition costs related to the restructuring of the organization. Results in 2015 were impacted by a loss of EUR 500 million on fair value items, which was driven by accounting losses on hedging programs and the impact of assumption changes. Realized gains of EUR 346 million mainly related to normal trading in the investment portfolio. Other charges amounted to EUR 2,254 million, mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization, the loss on the divestment of the Canadian life insurance activities and the impact of model updates.

**Net income**

The net loss amounted to EUR 431 million, which was the result of the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization, the loss on the divestment of the Canadian life insurance activities and the impact of model updates.

**Underlying earnings before tax**

Aegon's underlying earnings before tax in 2015 declined compared with 2014 to EUR 1,789 million. This was driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform, 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.

- ⌚ Underlying earnings before tax from the Americas increased by 6% to EUR 1,200 million in 2015. 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 Europe, the underlying loss before tax declined to EUR 559 million in 2015, as a result of the adverse impact the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.
- ⌚ Underlying earnings before tax from Asia increased to EUR 20 million in 2015 as one-time charges in 2014 from assumption changes and model updates did not recur.
- ⌚ Asset Management underlying earnings before tax were up 48% to EUR 170 million, driven by the positive impact of higher performance fees and third-party assets under management.
- ⌚ Total holding costs increased 17% compared with 2014 to EUR 161 million in 2015. 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 tax gain received in 2014.

**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), the positive impact of assumption changes (EUR 101 million), and the underperformance of alternative investments in the United States (EUR 221 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

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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 in preparation for the introduction of Solvency II.

### **Impairment charges**

Net recoveries totaled to EUR 49 million in 2015. In the United States, gross impairments were more than offset by recoveries mostly related to investments in previously impaired subprime residential mortgage-backed securities.

### **Other charges**

Other charges amounted to EUR 2,254 million. These were mostly caused by the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization (EUR 1,274 million), the loss on the divestment of the Canadian life insurance activities (EUR 751 million) and charges related to model updates (EUR 205 million).

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**Run-off businesses**

The results of run-off businesses improved to EUR 88 million, as the 2014 result included a negative impact from model updates of EUR 32 million.

**Income tax**

Income tax amounted to a benefit of EUR 51 million. The effective tax rate on underlying earnings and total income for 2015 was 20% and 11%, 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 18% in 2015 compared with 2014 to EUR 6.9 billion, which was mainly caused by the adverse impact of the accounting changes. Operating expenses increased by 13% in 2015 compared with 2014 to EUR 3.7 billion. Adverse currency movements and higher defined benefit expenses in the Netherlands 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 1.4 billion to EUR 22.4 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 17.5 billion on December 31, 2015, or 8.27 per common share. The gross leverage ratio improved to 28.4% on December 31, 2015, compared with the end of 2014, which was mostly as a result of earnings generated during the year. The negative impact on the gross leverage ratio of the book loss on the sale of the Canadian life insurance activities was offset by the redemption of the USD 500 million senior bond, which matured on December 8, 2015. Excess capital in the holding increased from EUR 1.2 billion at the end of 2014 to EUR 1.4 billion on December 31, 2015, as dividends from business units and proceeds from divestments were partly offset by the impact of cash used for deleveraging, dividends to shareholders, interest payments and operating expenses.

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

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

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

<b>Underlying earnings geographically</b> Amounts in EUR millions	2014	2013	%
<b>Net underlying earnings</b>	<b>1,416</b>	<b>1,531</b>	<b>(8%)</b>
Tax on underlying earnings	449	437	3%
<b>Underlying earnings before tax geographically</b>			
Americas	1,134	1,314	(14%)
Europe	771	637	21%
Asia	(17)	34	-
Asset Management	115	95	21%
Holding and other activities	(138)	(113)	(27%)
<b>Underlying earnings before tax</b>	<b>1,865</b>	<b>1,968</b>	<b>(5%)</b>
Fair value items	(1,366)	(1,118)	(22%)
Gains / (losses) on investments	697	500	39%
Net impairments	(34) (240)	(122) (52)	72% -

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Other income / (charges)			
Run-off businesses	6	68	(92%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>927</b>	<b>1,244</b>	<b>(25%)</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	10	8	33%
Income tax	(161)	(240)	33%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(10)	(8)	(33%)
<b>Net income</b>	<b>766</b>	<b>1,003</b>	<b>(24%)</b>
Commissions and expenses	5,865	5,826	1%
of which operating expenses	3,312	3,273	1%
<b>New life sales</b>			
Amounts in EUR millions	2014	2013	%
Americas	552	464	19%
Europe	1,379	1,381	0%
Asia	114	67	71%
<b>Total recurring plus 1/10 single</b>	<b>2,045</b>	<b>1,911</b>	<b>7%</b>
<b>Gross deposits (on and off balance)</b>			
Amounts in EUR millions	2014	2013	%
Americas	31,849 3,716	28,424 2,300	12% 62%

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Europe

Asia

526

587

(10%)

Asset Management

19,340

13,018

49%

**Total gross deposits**

**55,431**

**44,330**

**25%**

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<b>Worldwide revenues geographically 2014</b>	Americas	The Nether- lands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Manage- ment	Holding, other activities and elimina- tions	Segment total	Associates and Joint Ventures elimina- tions	Consoli- dated
Amounts in EUR millions											
Total life insurance gross premiums	6,461	3,982	5,057	524	196	1,097	-	(70)	17,246	(351)	16,896
Accident and health insurance premiums	1,874	233	56	1	60	102	-	-	2,326	(11)	2,316
General insurance premiums	-	501	-	152	72	-	-	-	725	(72)	653
<b>Total gross premiums</b>	<b>8,334</b>	<b>4,716</b>	<b>5,113</b>	<b>678</b>	<b>328</b>	<b>1,199</b>	<b>-</b>	<b>(70)</b>	<b>20,298</b>	<b>(433)</b>	<b>19,864</b>
Investment income	3,312	2,568	2,077	54	49	124	4	2	8,191	(42)	8,148
Fees and commission income	1,485	324	94	41	8	53	475	(243)	2,237	(100)	2,137
Other revenue	2	-	-	-	2	-	-	5	10	(3)	7
<b>Total revenues</b>	<b>13,134</b>	<b>7,608</b>	<b>7,284</b>	<b>773</b>	<b>387</b>	<b>1,376</b>	<b>479</b>	<b>(306)</b>	<b>30,735</b>	<b>(578)</b>	<b>30,157</b>
Number of employees, including agent employees	12,865	4,426	2,644	2,495	433	4,189	1,276	274	28,602		
<b>Underlying earnings before tax by line of business</b>											
Amounts in EUR millions									2014	2013	%
Life									652	1,003	(35%)
									657	483	36%

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### Individual Savings & Retirement

Pensions	518	475	9%
Non-life	46	12	-
Distribution	15	16	(8%)
Asset management	115	95	21%
Other	(138)	(115)	(24%)
<b>Underlying earnings before tax</b>	<b>1,865</b>	<b>1,968</b>	<b>(5%)</b>

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

Aegon's net income in 2014 amounted to EUR 766 million. Underlying earnings before tax declined to EUR 1.9 billion. Net income in 2014 was impacted by a loss of EUR 1.4 billion on fair value items, which was mainly driven by accounting losses on hedging programs and the impact of assumption changes and model updates, and other charges of EUR 240 million. These losses were partly offset by realized gains of EUR 697 million.

**Net income**

Net income declined to EUR 766 million as lower underlying earnings before tax, higher other charges and higher losses on fair value items more than offset higher realized gains and lower net impairments.

**Underlying earnings before tax**

Aegon's underlying earnings before tax in 2014 decreased 5% compared with 2013 to EUR 1,865 million. 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. 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 Europe, underlying earnings before tax increased 21% to EUR 771 million in 2014, primarily driven by higher investment income, improved margins on savings, a EUR 45 million employee benefit reserve release resulting from legislation changes, all in the Netherlands, and improved persistency in the United Kingdom.
- ⊘ The underlying loss before tax from Aegon's operations in Asia amounted to EUR 17 million in 2014. The decrease in underlying earnings before tax compared to 2013 was primarily the result of a charge from model updates in 2014 of EUR 29 million in the high net worth businesses. In addition, 2013 included a gain of EUR 23 million related to actuarial assumption changes and model updates.
- ⊘ Asset Management underlying earnings before tax were up 21% to EUR 115 million, driven by the positive impact of higher third-party assets under management.
- ⊘ Total holding costs increased 27% 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 and longevity hedges in the Netherlands (EUR 180 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**

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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. 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 due to 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 declined to EUR 6 million, mainly driven by a negative impact from model updates of EUR 32 million.

**Income tax**

Income tax amounted to EUR 161 million. The effective tax rate on underlying earnings for 2014 was 24%. The effective tax rate on total income was 17%. 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 5.9 billion. Operating expenses increased 1% in 2014 compared with 2013 to EUR 3.3 billion. This was mainly the result of an employee benefit reserve release in the Netherlands (EUR 45 million) which 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 23.8 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 17.2 billion on December 31, 2014.

The gross leverage ratio improved to 28.9% 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 8.13 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 I 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.

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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 Central & Eastern Europe and Asia.

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	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
<b>Net underlying earnings</b>	<b>1,045</b>	1,082	(3%)	<b>941</b>	814	16%
Tax on underlying earnings	287	424	(32%)	259	320	(19%)
<b>Underlying earnings before tax by business</b>						
Life	213	(13)	-	192	(10)	-
Accident & Health	140	212	(34%)	126	160	(21%)
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%
Canada	-	30	-	-	23	-
Latin America	1	5	(72%)	1	4	(67%)
	<b>1,332</b>	<b>1,506</b>	<b>(12%)</b>	<b>1,200</b>	<b>1,134</b>	<b>6%</b>

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<b>Underlying earnings before tax</b>						
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	98	8	-	88	6	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(268)</b>	<b>925</b>	<b>-</b>	<b>(241)</b>	<b>696</b>	<b>-</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	5	4	39%	5	3	66%
Income tax	7	(129)	-	6	(97)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(5)	(4)	(39%)	(5)	(3)	(66%)
<b>Net income</b>	<b>(261)</b>	<b>796</b>	<b>-</b>	<b>(235)</b>	<b>599</b>	<b>-</b>
Life insurance gross premiums	7,821	8,585	(9%)	7,046	6,461	9%
Accident and health insurance premiums	2,515	2,490	1%	2,266	1,874	21%
<b>Total gross premiums</b>	<b>10,336</b>	<b>11,074</b>	<b>(7%)</b>	<b>9,312</b>	<b>8,334</b>	<b>12%</b>
Investment income	4,085	4,401	(7%)	3,680	3,312	11%
Fees and commission income	1,891	1,974	(4%)	1,704	1,485	15%
Other revenues	11	3	-	9	2	-
<b>Total revenues</b>	<b>16,322</b>	<b>17,453</b>	<b>(6%)</b>	<b>14,705</b>	<b>13,134</b>	<b>12%</b>
Commissions and expenses	4,489	4,410	2%	4,044	3,319	22%
of which operating expenses	1,843	1,871	(2%)	1,660	1,408	18%





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

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

<b>Gross deposits (on and off balance)</b>	Amounts in USD millions			%	Amounts in EUR millions		
	<b>2015</b>	2014			<b>2015</b>	2014	
Life	7	9	(20%)	6	7	(4%)	
Retirement plans	27,833	26,736	4%	25,075	20,121	25%	
Mutual funds	5,084	4,879	4%	4,580	3,672	25%	
Variable annuities	7,857	10,235	(23%)	7,079	7,702	(8%)	
Fixed annuities	276	323	(15%)	249	243	2%	
	-	121	-	-	91	-	

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Canada						
Latin America	12	18	(35%)	10	14	(22%)
<b>Total gross deposits</b>	<b>41,069</b>	<b>42,321</b>	<b>(3%)</b>	<b>36,999</b>	<b>31,849</b>	<b>16%</b>

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

**Table of Contents**26 Business overview **Results of operations** Americas**Results 2015 Americas**

The net loss in 2015 was USD 261 million, primarily the result of the book loss on the divestment of Canada of USD 837 million. Underlying earnings before tax decreased 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 261 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. Earnings from run-off businesses amounted to USD 98 million. 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. The earnings impact of the updates in 2015 was primarily caused by long-term care.

- ⌚ Underlying earnings before tax from Life increased to USD 213 million compared with USD (13) million in 2014. This is due to lower one-time charges for assumption changes more than offsetting unfavorable mortality, 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.
- ⌚ Accident & Health underlying earnings before tax declined by 34% to USD 140 million compared with 2014, which was mainly the result of adverse morbidity and charges for actuarial assumption changes.
- ⌚ Underlying earnings before tax from Mutual Funds increased by 6% to USD 50 million compared with 2014, mainly driven by favorable markets.
- ⌚ Retirement Plans underlying earnings before tax were down 4% to USD 261 million in 2015 compared with 2014, primarily driven by lower general account pension liabilities and margin pressure arising from the competitive environment on fees.
- ⌚ Underlying earnings before tax from Variable Annuities 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.
- ⌚ Fixed Annuity underlying earnings before tax were down 62% to USD 66 million compared with 2014. Underlying earnings before tax from fixed annuities were adversely impacted by assumption changes of USD 65 million and the decline of balances as a result of deemphasizing the business.
- ⌚ Underlying earnings before tax from Stable Value Solutions amounted to USD 101 million compared with USD 109 million in 2014 due to lower account balances from net outflows.
- ⌚ Latin America contributed USD 1 million to underlying earnings in 2015.

**Commissions and expenses**

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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	%
<b>Net underlying earnings</b>	1,082	1,280	(15%)	814	965	(16%)
Tax on underlying earnings	424	463	(8%)	320	349	9%
<b>Underlying earnings before tax by business</b>						
Life insurance	(13)	469	-	(10)	353	-
Accident & health insurance	212	254	(16%)	160	191	(16%)
Retirement plans	272	239	14%	205	180	13%
Mutual funds	47	33	43%	35	25	42%
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%)
Canada	30	4	-	23	3	-
Latin America	5	9	(45%)	4	7	(46%)

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<b>Underlying earnings before tax</b>	<b>1,506</b>	<b>1,744</b>	<b>(14%)</b>	<b>1,134</b>	<b>1,314</b>	<b>(14%)</b>
Fair value items	(661)	(1,300)	49%	(497)	(980)	49%
Gains / (losses) on investments	113	145	(22%)	85	110	(22%)
Net impairments	27	(58)	-	21	(44)	-
Other income / (charges)	(69)	95	-	(52)	72	-
Run-off businesses	8	91	(92%)	6	68	(92%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>925</b>	<b>717</b>	<b>29%</b>	<b>696</b>	<b>540</b>	<b>29%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	4	4	(9%)	3	3	(9%)
Income tax	(129)	(158)	18%	(97)	(119)	18%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(4)	(4)	9%	(3)	(3)	9%
<b>Net income</b>	<b>796</b>	<b>560</b>	<b>42%</b>	<b>599</b>	<b>422</b>	<b>42%</b>
Life insurance gross premiums	8,585	8,212	5%	6,461	6,187	4%
Accident and health insurance premiums	2,490	2,372	5%	1,874	1,787	5%
<b>Total gross premiums</b>	<b>11,074</b>	<b>10,584</b>	<b>5%</b>	<b>8,334</b>	<b>7,975</b>	<b>5%</b>
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	(44%)	2	4	(44%)
<b>Total revenues</b>	<b>17,453</b>	<b>16,752</b>	<b>4%</b>	<b>13,134</b>	<b>12,622</b>	<b>4%</b>
Commissions and expenses	4,410	4,332	2%	3,319	3,264	2%
	1,871	1,911	(2%)	1,408	1,440	(2%)

of which operating expenses



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<b>New life sales</b>	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Life	615	505	22%	463	380	22%
Canada	75	68	9%	56	51	9%
Latin America	43	42	3%	33	32	3%
<b>Total recurring plus 1/10 single</b>	<b>733</b>	<b>615</b>	<b>19%</b>	<b>552</b>	<b>464</b>	<b>19%</b>
New premium production accident and health insurance	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
	1,193	902	32%	898	680	32%
<b>Gross deposits (on and off balance)</b>	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Life	9	11	(20%)	7	8	(20%)
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	-

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Canada	121	125	(3%)	91	94	(3%)
Latin America	18	18	(2%)	14	14	(2%)
<b>Total gross deposits</b>	<b>42,321</b>	<b>37,725</b>	<b>12%</b>	<b>31,849</b>	<b>28,424</b>	<b>12%</b>

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 increased to USD 796 million. Underlying earnings before tax decreased to USD 1.5 billion 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. New life sales increased to USD 733 million due to higher sales of universal life products. Gross deposits were 12% higher compared with 2013 driven by variable annuities and retirement plans.

**Net income**

Net income increased to USD 796 million in 2014 compared with 2013. Lower underlying earnings before tax, higher other charges and lower income before tax from run-off business 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 amounted to a loss of USD 13 million compared with a profit of USD 469 million in 2013. Growth of 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.
- ⌚ Accident & Health underlying earnings before tax were down 16% to USD 212 million compared with 2013 as a result of adverse claim experience and actuarial assumption changes.
- ⌚ Underlying earnings before tax from Mutual Funds increased 43% to USD 47 million compared with 2013, primarily driven by higher net inflows and favorable markets.
- ⌚ Retirement Plans underlying earnings before tax increased 14% to USD 272 million in 2014 compared with 2013, mainly driven by higher balances as a result of business growth and favorable markets.
- ⌚ Underlying earnings before tax from Variable Annuities were up 62% to USD 671 million compared with 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.
- ⌚ Fixed Annuity underlying earnings before tax were down 20% to USD 172 million compared with 2013. Underlying earnings before tax from fixed annuities were adversely impacted by assumption changes amounting to USD 39 million the decline of balances as a result of deemphasizing the business.
- ⌚ Underlying earnings before tax from Stable Value Solutions remained flat at USD 109 million compared with 2013.

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- ⓘ In Canada, underlying earnings amounted to USD 30 million in 2014, compared with USD 4 million in 2013. This was primarily driven by the 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 2% in 2014 to USD 4,410 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 leading<sup>1</sup> 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:

- ⌚ Transamerica Life Insurance Company;
- ⌚ Transamerica Financial Life Insurance Company;
- ⌚ Transamerica Advisors Life Insurance Company;
- ⌚ Transamerica Premier Life Insurance Company; and
- ⌚ Transamerica Casualty Insurance Company.

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

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

<sup>1</sup> Source: A.M. Best.

<sup>2</sup> 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



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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.

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

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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**

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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 assets<sup>1</sup>.

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<sup>®</sup>, 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

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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.

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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 of such regulation varies, but has a shared purpose in terms of

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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%.



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### 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 advisors are regulated as fiduciaries, required to put customer interests above their own. The SEC intends to propose regulations imposing a harmonized standard of care, and has announced that the proposed regulations will be published in the 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 advisors, 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 advisors, 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 advisors, investment companies and service providers relating to certain historical and current practices with respect to these and other matters. Some of those inquiries have led to investigations, which remain open, or have resulted in fines, corrective actions or restitution. Aegon USA continues to cooperate with these regulatory agencies. In certain instances, Aegon USA modified business practices in response to those inquiries or findings. Certain Aegon USA companies have paid, or have been informed that the regulators may seek, restitution, fines or other monetary penalties or changes in the way that business is conducted. The impact of any such fines or other monetary penalties is not expected to have a material impact on Aegon USA's financial position, net income or cash flow.

### [Regulation of 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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As disclosed in note 2.4 Segment reporting to the consolidated financial statements, Aegon changed its segment reporting.

This segment reporting is based on the businesses as presented in internal reports that are regularly reviewed by the Executive Board which is regarded as the chief operating decision maker. For Europe, the underlying businesses (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 this section.

Management is of the opinion that presenting the information for the entire Europe area is beneficial to the users of the financial information as it aligns to how Aegon management is looking at the information following convergence in Europe from a regulatory standpoint (introduction of Solvency II per January 1, 2016) and financial markets perspective.

The following tables comprise the reconciliation of the operating segments within Europe for the year 2015, 2014 and 2013 and cover the main IFRS measures (Net income / (loss), Total revenues and Commission and expenses):

**Income statement -  
Underlying earnings**

Amounts in EUR million

**2015**

	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
<b>Net underlying earnings</b>	<b>419</b>	<b>31</b>	<b>26</b>	<b>6</b>	<b>482</b>
Tax on underlying earnings	118	(58)	10	7	77
<b>Underlying earnings before tax</b>	<b>537</b>	<b>(27)</b>	<b>37</b>	<b>12</b>	<b>559</b>
Fair value items	175	(25)	-	-	150
Realized gains / (losses) on investments	306	103	2	-	411
Impairment charges	(25)	-	(2)	-	(27)
Impairment reversals	5	-	-	-	5
Other income / (charges)	(22)	(1,247)	(2)	17	(1,254)
Run-off businesses	-	-	-	-	-
Income / (loss) before tax	977	(1,196)	35	29	(156)
Income tax (expense) / benefit	(223)	268	(11)	(7)	27
<b>Net income / (loss)</b>	<b>753</b>	<b>(928)</b>	<b>24</b>	<b>22</b>	<b>(129)</b>
<b>Revenues</b>					
<b>2015</b>					
Life insurance gross premiums	2,240	8,465	477	174	11,356
Accident and health insurance	234	47	1	64	345
General insurance	473	-	164	80	717
Total gross premiums	2,947	8,512	642	317	12,419
Investment income	2,277	2,331	45	41	4,693
Fee and commission income	351	98	39	13	501
Other revenues	-	-	-	2	2

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<b>Total revenues</b>	<b>5,575</b>	<b>10,941</b>	<b>726</b>	<b>373</b>	<b>17,615</b>
Commissions and expenses	1,053	907	264	144	2,368
of which operating expenses	831	398	143	70	1,442

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**Income statement -  
Underlying earnings**

Amounts in EUR million	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
<b>2014</b>					
<b>Net underlying earnings</b>	<b>423</b>	<b>144</b>	<b>48</b>	<b>23</b>	<b>638</b>
Tax on underlying earnings	135	(19)	12	5	133
<b>Underlying earnings before tax</b>	<b>558</b>	<b>125</b>	<b>60</b>	<b>28</b>	<b>771</b>
Fair value items	(766)	(31)	8	-	(789)
Realized gains / (losses) on investments	431	164	9	2	606
Impairment charges	(19)	-	(42)	-	(61)
Impairment reversals	7	-	-	-	7
Other income / (charges)	(113)	(49)	(26)	(1)	(189)
Run-off businesses	-	-	-	-	-
Income / (loss) before tax	99	209	9	28	345
Income tax (expense) / benefit	(37)	(35)	-	(7)	(79)
<b>Net income / (loss)</b>	<b>62</b>	<b>173</b>	<b>9</b>	<b>22</b>	<b>266</b>
<b>Revenues</b>					-
<b>2014</b>					-
Life insurance gross premiums	3,982	5,057	524	196	9,759
Accident and health insurance	233	56	1	60	351
General insurance	501	-	152	72	725
Total gross premiums	4,716	5,113	678	328	10,835
Investment income	2,568	2,077	54	49	4,748
Fee and commission income	324	94	41	8	467
Other revenues	-	-	-	2	2
<b>Total revenues</b>	<b>7,608</b>	<b>7,284</b>	<b>773</b>	<b>387</b>	<b>16,052</b>
Commissions and expenses	977	821	258	120	2,176
of which operating expenses	726	476	138	60	1,400



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Underlying earnings**

Amounts in EUR million	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
<b>2013</b>					
<b>Net underlying earnings</b>	<b>352</b>	<b>145</b>	<b>46</b>	<b>28</b>	<b>571</b>
Tax on underlying earnings	102	(51)	11	5	68
<b>Underlying earnings before tax</b>	<b>454</b>	<b>94</b>	<b>57</b>	<b>33</b>	<b>638</b>
Fair value items	(41)	(21)	1	-	(61)
Realized gains / (losses) on investments	342	48	1	1	392
Impairment charges	(39)	(31)	(17)	-	(87)
Impairment reversals	8	-	-	-	8
Other income / (charges)	(36)	(46)	(210)	174	(118)
Run-off businesses	-	-	-	-	-
Income / (loss) before tax	688	44	(168)	208	772
Income tax (expense) / benefit	(166)	33	24	(5)	(114)
<b>Net income / (loss)</b>	<b>522</b>	<b>77</b>	<b>(144)</b>	<b>203</b>	<b>658</b>
<b>Revenues</b>					-
<b>2013</b>					-
Life insurance gross premiums	3,515	6,537	517	223	10,792
Accident and health insurance	243	-	1	62	306
General insurance	487	-	150	44	681
Total gross premiums	4,245	6,537	668	329	11,779
Investment income	2,310	2,057	57	68	4,492
Fee and commission income	328	129	49	9	515
Other revenues	-	(1)	-	2	1
<b>Total revenues</b>	<b>6,883</b>	<b>8,722</b>	<b>774</b>	<b>408</b>	<b>16,787</b>
Commissions and expenses	990	810	298	90	2,188
of which operating expenses	732	430	140	47	1,349

The results of operations Europe for 2015 and 2014 that are based on the figures of the separate operating segments are further disclosed on the following pages.

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**Results 2015 Europe**

Amounts in EUR million	2015	2014	%
<b>Net underlying earnings</b>	<b>482</b>	638	(25%)
Tax on underlying earnings	77	133	(42%)
<b>Underlying earnings before tax by business / country</b>			
The Netherlands	537	558	(4%)
United Kingdom	(27)	125	-
Central & Eastern Europe	37	60	(39%)
Spain and Portugal <sup>1)</sup>	12	28	(56%)
<b>Underlying earnings before tax</b>	<b>559</b>	<b>771</b>	<b>(27%)</b>
Fair value items	150	(789)	-
Gains / (losses) on investments	411	606	(32%)
Net impairments	(22)	(54)	58%
Other income / (charges)	(1,254)	(189)	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(156)	345	-
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	6	2	-
Income tax	27	(79)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(6)	(2)	-
<b>Net income</b>	<b>(129)</b>	<b>266</b>	<b>-</b>
Life insurance gross premiums	11,356	9,759	16%
Accident and health insurance premiums	345	351	(2%)
General insurance premiums	717	725	(1%)
<b>Total gross premiums</b>	<b>12,419</b>	<b>10,835</b>	<b>15%</b>
Investment income	4,693	4,748	(1%)
Fees and commission income	501	467	7%
Other revenues	2	2	(20%)
<b>Total revenues</b>	<b>17,615</b>	<b>16,052</b>	<b>10%</b>
Commissions and expenses	2,368	2,175	9%
of which operating expenses	1,442	1,401	3%

<sup>1</sup> 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 million	2015	2014	%
The Netherlands	130	251	(48%)
United Kingdom	911	972	(6%)
Central & Eastern Europe	91	107	(15%)
Spain & Portugal	39	49	(20%)
<b>Total recurring plus 1/10 single</b>	<b>1,172</b>	<b>1,379</b>	<b>(15%)</b>

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

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<b>Gross deposits (on and off balance)</b>	<b>2015</b>	2014	%
The Netherlands	5,137	2,781	85%
United Kingdom	683	665	3%
Central & Eastern Europe	227	215	5%
Spain & Portugal	29	55	(47%)
<b>Total gross deposits</b>	<b>6,075</b>	<b>3,716</b>	<b>63%</b>

**Exchange rates**

	<b>Weighted average rate</b>	
	<b>2015</b>	2014
Per 1 EUR		
Pound sterling	0.7256	0.8061
Czech koruna	27.2662	27.5153
Hungarian florint	309.3147	308.3758
Polish zloty	4.1819	4.1839
Romanian leu	4.4428	4.4429
Turkish Lira	3.0206	2.9060
Ukrainian Hryvnia	24.1414	15.8120

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## Results 2015 Europe

The net loss in 2015 was EUR 129 million, primarily due to a charge of EUR 1,274 million related to the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization. Underlying earnings before tax decreased to EUR 559 million, mainly driven by the United Kingdom, compared with a profit of EUR 771 million in 2014. Gross deposits increased to EUR 6.1 billion primarily as a result of higher bank deposits in the Netherlands. New life sales declined to EUR 1.2 billion mainly due to the absence of large pension buyouts in the Netherlands. New premium production for general and accident & health insurance increased to EUR 112 million.

### Net income

The net loss in 2015 was EUR 129 million, primarily due to other charges of EUR 1,254 million mainly related to the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization. Results on fair value items improved to EUR 150 million driven mainly by results of interest rate hedging in the Netherlands. Realized gains on investments amounted to EUR 411 million, and were mainly related to normal trading in the investment portfolio in the Netherlands. Net impairments improved to a loss of EUR 22 million.

#### Net income for the Netherlands

Net income from Aegon's businesses in the Netherlands amounted to EUR 753 million in 2015. 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.

#### Net income for the United Kingdom

Net income in 2015 from Aegon's business in the United Kingdom amounted to a loss of GBP 674 million in 2015. This loss was primarily driven by a charge of GBP 924 million related to the write down of deferred policy acquisition costs related to the restructuring of the organization. Realized gains on investments totalled GBP 75 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 18 million as a result of unrealized losses on equity hedges to protect the capital position. Other charges of GBP 905 million were mainly due to the write down of deferred policy acquisition costs related to the restructuring of the organization.

#### Net income for Central & Eastern Europe

Net income from Aegon's businesses in Central & Eastern Europe improved by EUR 15 million mainly as a result of lower impairments recorded in Hungary.

#### Net income for Spain & Portugal

Net income in Spain & Portugal remained level at EUR 22 million.

### Underlying earnings before tax

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

### Underlying earnings before tax for the Netherlands

Underlying earnings before tax for the Netherlands 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.

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Underlying earnings before tax for the United Kingdom Underlying earnings before tax in the United Kingdom amounted to a loss of GBP 20 million. This was mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.

- ⌚ Underlying earnings before tax from Life decreased by 26% to GBP 59 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 amounted to a loss of GBP 78 million in 2015. This was mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.

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

Underlying earnings before tax from Central & Eastern Europe decreased to EUR 37 million in 2015 compared with EUR 60 million in 2014. This decrease was primarily driven by the negative impact of higher surrenders in Poland following product changes and adverse claim experience due to storms in Hungary.

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

Underlying earnings before tax from Spain & Portugal decreased from EUR 28 million in 2014 to EUR 12 million in 2015. Underlying earnings before tax in 2014 include EUR 19 million of Aegon’s stake in La Mondiale Participations (France) which was divested by Aegon in 2015. Excluding this divestment, earnings increased driven by growth of Aegon’s joint ventures with Santander in Spain.

**Commissions and expenses**

Commissions and expenses increased by 9% compared with 2014 to EUR 2.4 billion in 2015. Operating expenses increased by 3% in 2015 to EUR 1,442 million, mainly the result of currency movements.

**Commissions and expenses for the Netherlands**

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.

**Commissions and expenses for the United Kingdom**

Commissions and expenses decreased by 1% in 2015 to GBP 658 million compared with 2014. Operating expenses decreased by 25% in 2015 to GBP 289 million compared with 2014, mainly due to lower business transformation costs and the non-recurrence of a provision for the implementation of the pension fee cap.

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

Commissions and expenses increased by 2% in 2015 to EUR 264 million compared with 2014. Operating expenses were up 4% to EUR 143 million in 2015, compared with 2014, mainly due to higher marketing expenses support growth.

**Commissions and expenses for Spain & Portugal**

Commissions and expenses increased by 20% in 2015 to EUR 144 million compared with 2014. Operating expenses increased by 17% in 2015 to EUR 70 million compared with 2014, mainly due to support growth of Aegon’s joint ventures with Santander in Spain and Portugal.

**Production**

Gross deposits increased by 63% in 2015 to EUR 6.1 billion. The strong increase compared with 2014 was primarily driven by the growth of Knab, Aegon’s online bank and by the defined contribution pension business (PPI) in the Netherlands.

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New life sales declined by 15% in 2015 to EUR 1,172 million. The decline compared with 2014 was mainly the result of the absence of large pension buyouts in the Netherlands and lower group pensions sales in the United Kingdom driven by lower demand for traditional pension products. New premium production for general and accident & health insurance increased to EUR 112 million.

### Production for the Netherlands

Gross deposits almost doubled in 2015 to EUR 5.1 billion compared with 2014, mainly driven by the growth of Knab, Aegon's online bank in the Netherlands, and by the PPI business. New life sales amounted to EUR 130 million, 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.

### Production for the United Kingdom

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. Gross deposits of GBP 495 million in 2015 were mainly driven by the addition of new customers as the platform gained additional traction in the market.

### Production for Central & Eastern Europe

In Central & Eastern Europe, new life sales in 2015 declined by 15% to EUR 91 million. Sales growth in Turkey was more than offset by lower sales in Poland resulting from changes in the product offering.

For general insurance business there were higher sales amounting to EUR 36 million in Central & Eastern Europe.

### Production for Spain & Portugal

New life sales in Spain & Portugal declined by 20% in 2015 compared with 2014 to EUR 39 million due to a lower sales contribution from banc assurance joint ventures in Spain. For accident & health and general insurance business there were strong. Sales in Spain & Portugal totalling EUR 19 million for general insurance and EUR 19 million for accident & health.

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**Results 2014 Europe**

Amounts in EUR million	2014	2013	%
<b>Net underlying earnings</b>	638	570	12%
Tax on underlying earnings	133	68	96%
<b>Underlying earnings before tax by business / country</b>			
Netherlands	558	454	23%
United Kingdom	125	94	34%
Central & Eastern Europe	60	57	5%
Spain & France	28	33	(16%)
<b>Underlying earnings before tax</b>	<b>771</b>	<b>637</b>	<b>21%</b>
Fair value items	(789)	(62)	-
Gains / (losses) on investments	606	393	54%
Net impairments	(54)	(80)	33%
Other income / (charges)	(189)	(117)	(61%)
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	345	772	(55%)
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	2	8	(76%)
Income tax	(79)	(114)	31%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(2)	(8)	76%
<b>Net income</b>	<b>266</b>	<b>658</b>	<b>(60%)</b>
Life insurance gross premiums	9,759	10,792	(10%)
Accident and health insurance premiums	351	306	15%
General insurance premiums	725	681	6%
<b>Total gross premiums</b>	<b>10,835</b>	<b>11,778</b>	<b>(8%)</b>
Investment income	4,748	4,493	6%
Fees and commission income	467	515	(9%)
Other revenues	2	1	82%
<b>Total revenues</b>	<b>16,052</b>	<b>16,787</b>	<b>(4%)</b>
Commissions and expenses	2,175	2,187	(1%)
of which operating expenses	1,401	1,349	4%
<b>New life sales</b>			
Amounts in EUR million	2014	2013	%
The Netherlands	251	206	22%
United Kingdom	972	1,014	(4%)
Central & Eastern Europe	107	108	0%
Spain & Portugal	49	54	(8%)
<b>Total recurring plus 1/10 single</b>	<b>1,379</b>	<b>1,381</b>	<b>0%</b>

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Amounts in EUR million	2014	2013	%
New premium production accident and health insurance	21	30	(28%)
New premium production general insurance	72	61	17%

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<b>Gross deposits (on and off balance)</b>	2014	2013	%
The Netherlands	2,781	1,338	108%
United Kingdom	665	705	(6%)
Central & Eastern Europe	215	248	(13%)
Spain & Portugal	55	9	-
<b>Total gross deposits</b>	<b>3,716</b>	<b>2,300</b>	<b>62%</b>

<b>Exchange rates</b> Per 1 EUR	Weighted average rate	
	2014	2013
Pound sterling	0.8061	0.8484
Czech koruna	27.5153	25.9238
Hungarian florint	308.3758	296.3309
Polish zloty	4.1839	4.1940
Romanian leu	4.4429	4.4167
Turkish Lira	2.9060	2.5305
Ukrainian Hryvnia	15.8120	10.8249

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## Results 2014 Europe

Net income in 2014 decreased to EUR 266 million. Underlying earnings before tax increased 21% to EUR 771 million in 2014. This was driven by higher underlying earnings in the Netherlands, the United Kingdom and Central & Eastern Europe, partly offset by lower underlying earnings in Spain & France. New life sales remained stable at EUR 1.4 billion. Gross deposits were 62% higher compared with 2013 driven by bank deposits in the Netherlands.

### Net income

Net income decreased to EUR 266 million, mainly driven by losses on fair value items. Results on fair value items amounted to a loss of EUR 789 million, which were primarily related to hedging programs and model updates. Realized gains on investments amounted to EUR 606 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. Impairments improved compared with 2013 to a loss of EUR 54 million. Other charges amounted to EUR 189 million, and were related to the Optas agreement in the Netherlands and business transformation costs and implementation of the pension fee cap in the United Kingdom.

### Net income for the Netherlands

Net income from Aegon's businesses in the Netherlands amounted to EUR 62 million. Realized gains on investments totalled 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. Impairment charges totalled EUR 12 million driven by lower mortgage arrears. Other charges of EUR 113 million were mostly due to a EUR 95 million provision for the Optas agreement.

### Net income for the United Kingdom

Net income from Aegon's business in the United Kingdom amounted to GBP 140 million in 2014, 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 25 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 for the implementation of the upcoming pension fee cap.

### Net income for Central & Eastern Europe

Net income for Central & Eastern Europe improved to EUR 9 million in 2014 due to non-recurring Other charges of EUR (210) million affecting 2013. Other charges in 2013 mainly reflects the write off of intangible assets related to Aegon's Polish pension fund business following a partial nationalization of these pension funds by the Polish government.

### Net income for Spain & France

Net income in Spain & France decreased to EUR 22 million in 2014 due to non-recurring Other income of EUR 174 million recorded in 2013 following the sale of the joint ventures in Spain

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with Unnim and CAM. The exit from these joint ventures resulted in gains of EUR 102 million and EUR 74 million respectively.

### Underlying earnings before tax

Underlying earnings before tax increased 21% to EUR 771 million in 2014. This was driven by higher underlying earnings in the Netherlands, the United Kingdom and Central & Eastern Europe, partly offset by lower underlying earnings in Spain & France.

#### Underlying earnings before tax for the Netherlands

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.

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

Underlying earnings before tax in the United Kingdom increased 27% to GBP 101 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 79 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.

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- ↳ Underlying earnings before tax from Pensions increased to GBP 22 million in 2014 compared with a loss of GBP 7 million in 2013. This increase was mostly driven by improved persistency following the introduction of the Retail Distribution Review (RDR).

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

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 for Spain & France**

Underlying earnings before tax from Spain & France decreased 16% 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.

## **Commissions and expenses**

Commissions and expenses remained stable in 2014 compared with 2013 at EUR 2.2 billion. Operating expenses increased 4% in 2014 to EUR 1.4 billion as mainly the result of growth of the business. An employee benefit reserve release resulting from legislation changes in the Netherlands of EUR 45 million was partly offset by a provision of EUR 38 million related to the fee cap on pension business in the United Kingdom.

### **Commissions and expenses for the Netherlands**

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%.

### **Commissions and expenses for the United Kingdom**

Commissions and expenses decreased by 4% in 2014 to GBP 662 million compared with 2013. Operating expenses increased by 5% in 2014 to GBP 384 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.

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

Commissions and expenses decreased by 13% in 2014 to EUR 258 million compared with 2013, mainly due to the non-recurrence of the impairments of deferred acquisition costs related to the Polish pension business. Operating expenses were down 1% to EUR 138 million in 2014, compared with 2013.

### **Commissions and expenses for Spain & Portugal**

Commissions and expenses increased by 33% in 2014 to EUR 120 million compared with 2013. Operating expenses increased by 28% in 2014 to EUR 60 million compared with 2013, mainly as a result of the joint ventures with Santander in Spain, and higher marketing and sales expenses to support growth.

## **Production**

Gross deposits increased 62% to EUR 3.7 billion in 2014. The strong increase compared with 2013 was primarily driven by the growth of Knab, Aegon's online bank in the Netherlands. New life sales remained stable in 2014 compared with 2013 at EUR 1.4 billion. Growth in the Netherlands as a result of a single large new pension contract for Dutch mineworkers was offset by declines in the United Kingdom as a result of lower group pension sales following the implementation of the RDR in 2013 and the divestment of partnerships in Spain. New premium production for general and accident & health insurance amounted to EUR 93 million.

### **Production for the Netherlands**

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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.

### Production for the United Kingdom

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. 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 536 million in 2014 were mainly driven by the addition of new customers as the platform gained additional traction in the market.

### Production for Central & Eastern Europe

In Central & Eastern Europe, new life sales in 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. Accident & health and general insurance businesses for Central & Eastern Europe remained stable at EUR 25 million.

### Production for Spain & Portugal

New life sales in Spain & France 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. Accident & health and general insurance businesses for Spain & France increased to EUR 28 million, as a result of higher general insurance and accident & health sales.

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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 pensions<sup>1</sup>, 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 Netherlands<sup>2</sup>.

**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 sector<sup>3</sup>.

Aegon the Netherlands' primary subsidiaries are:

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

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.



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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.

1 Verzekerd van cijfers 2014, Verbond van Verzekeraars.

2 AM Jaarcijfers.

3 Metrixlab brandtrackers.

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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

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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 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

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,

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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.

<sup>1</sup> Verzekerd van cijfers 2014, Verbond van Verzekeraars.

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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 2014<sup>1</sup> 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 market<sup>2</sup>. 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 sales<sup>4</sup> 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 savings<sup>5</sup>, 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

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).

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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).

1 Verzekerd van Cijfers.

2 Verzekerd van Cijfers.

3 Dutch Central Bank.

4 The Land Registry (Kadaster), 2015.

5 Dutch Central Bank.

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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.



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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.

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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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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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In the United Kingdom, Aegon is a major provider of corporate and individual pensions, protection products, annuities, and savings products. Aegon Ireland is a specialist provider of variable annuity (guarantee) products in the United Kingdom, Germany and France. Aegon UK and Aegon Ireland have over two million customers, approximately 2,500 employees, and GBP 63 billion in revenue-generating investments.

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 (Aegon UK) is Aegon holding company in the United Kingdom. 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.

Aegon UK's main offices are in Edinburgh and London.

The main office of Aegon Ireland PLC (Aegon Ireland) is located in Dublin, Ireland, with a branch office in Frankfurt, Germany.

**Overview of sales and distribution channels**

In the United Kingdom, Aegon 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 2015<sup>1</sup>.

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

**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.

<sup>1</sup> Platforum, 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 sales and distribution channels Aegon Ireland**

Aegon Ireland products are sold exclusively through Aegon UK's retail advisor channel in the United Kingdom. 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.

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.

### **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), offshore investment bonds and individual annuities. Pensions comprises a broad range of workplace and personal pensions in addition to investment products and variable annuities.

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 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, income protection, and offshore investment bonds. 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.



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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.

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 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 – a UK-style variable annuity – is unique in the UK in providing a guaranteed retirement income product on a platform. In the UK, Aegon has two direct competitors offering variable annuities: Axa and MetLife. New retirement income products are expected to come to market in 2016.

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.

The UK offshore investment bond market has been increasingly concentrated among the largest companies and is highly competitive.

**Regulation and supervision**

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

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

Aegon Ireland is registered as a life insurance company in Ireland under the European Communities (Life Assurance) Framework Regulations 1994 (the 1994 Regulations), which implement the Consolidated Life Directive in Ireland. Aegon Ireland is regulated by the Central Bank of Ireland. As an Irish-authorized life insurance company, Aegon Ireland may undertake life insurance business in any member state of the European Economic Area on either a freedom of services (FOS) or freedom of establishment (FOE) basis, subject to the notification requirements set out in the 1994 Regulations.

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

**Financial supervision of insurance companies 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.

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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.

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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 has been using a Partial Internal Model to calculate the solvency position of its insurance activities in the United Kingdom. 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 in the United Kingdom on December 31, 2015, is estimated to be ~140%.

Aegon Ireland has been using the Standard Formula to calculate the solvency position of its insurance activities. The Solvency II position of Aegon Ireland on December 31, 2015, is estimated to be ~125%.

**Asset liability management**

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

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

For its with-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.

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

**With-profit fund**

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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) 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.

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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.

### **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.

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 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 products<sup>1</sup>. In addition, Aegon Poland Life also offers traditional saving type products.

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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 player<sup>2</sup> 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.

<sup>1</sup> [https://www.knf.gov.pl/en/about\\_the\\_market/Insurance/Financial\\_and\\_statistical\\_data/Quarterly\\_data/quarterly.html](https://www.knf.gov.pl/en/about_the_market/Insurance/Financial_and_statistical_data/Quarterly_data/quarterly.html)

<sup>2</sup> <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 country<sup>1</sup>.

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 Poland<sup>4</sup>, Slovakia<sup>7</sup> and Romania<sup>1</sup>, and its voluntary pension fund in Hungary<sup>8</sup>, are among the largest in the respective countries. In terms of numbers of members, Aegon has a significant market presence in Poland<sup>4</sup>, Romania<sup>1</sup>, and Hungary<sup>8</sup>. 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 market<sup>2</sup>. In recent years, margins on non-life insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for the cross-selling of life insurance.

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

### **Competition**

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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 market<sup>3</sup>. 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 premiums<sup>4</sup>. 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<sup>5</sup>. 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 2015<sup>6</sup>.

- 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](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 Hungary<sup>1</sup>. For managed assets, at the end of 2015, Aegon was ranked fifth in the Slovakian private pension market<sup>2</sup>. In November 2015, Aegon ranked tenth in terms of both the number of participants and managed assets in Poland<sup>3</sup>. 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 participants<sup>4</sup>.

**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](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 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 customers<sup>1</sup>. 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 role<sup>2</sup>.

**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,

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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.

- 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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### **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.

### **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 Millenniumbcp and Caixa Geral de Depósitos respectively. These companies have a market share of 20% each<sup>3</sup>.

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%<sup>4</sup>.



## Regulation and supervision

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

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

- 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).
- 4 Associação Portuguesa de Seguradores (APS)

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**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%.

**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 one 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: Aerial Assurance, La Mondiale Partenaire and La Mondiale Europartenaire.

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**Results 2015 Asia**

	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
<b>Net underlying earnings</b>	<b>(4)</b>	(34)	89%	<b>(3)</b>	(26)	87%
Tax on underlying earnings	27	12	130%	24	9	176%
<b>Underlying earnings before tax by business / country</b>						
High net worth businesses	45	17	170%	40	13	-
Aegon Direct & Affinity Marketing Services	5	(2)	-	5	(1)	-
Strategic partnerships	(27)	(38)	27%	(25)	(29)	15%
<b>Underlying earnings before tax</b>	<b>23</b>	<b>(23)</b>	-	<b>20</b>	<b>(17)</b>	-
Fair value items	7	4	108%	7	3	150%
Gains / (losses) on investments	7	6	13%	7	5	35%
Net impairments	-	(1)	73%	-	(1)	68%
Other income / (charges)	(68)	5	-	(61)	4	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(31)</b>	<b>(9)</b>	-	<b>(27)</b>	<b>(7)</b>	-

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<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	3	(3)	-	3	(2)	-
Income tax	(3)	(12)	76%	(3)	(9)	71%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(3)	3	-	(3)	2	-
<b>Net income</b>	<b>(33)</b>	<b>(21)</b>	<b>(57%)</b>	<b>(30)</b>	<b>(16)</b>	<b>(89%)</b>
Life insurance gross premiums	1,902	1,458	30%	1,713	1,097	56%
Accident and health insurance premiums	117	136	(14%)	105	102	3%
<b>Total gross premiums</b>	<b>2,019</b>	<b>1,594</b>	<b>27%</b>	<b>1,819</b>	<b>1,199</b>	<b>52%</b>
Investment income	216	164	31%	194	124	57%
Fees and commission income	69	70	(1%)	62	53	18%
<b>Total revenues</b>	<b>2,304</b>	<b>1,829</b>	<b>26%</b>	<b>2,076</b>	<b>1,376</b>	<b>51%</b>
Commissions and expenses	268	256	5%	242	192	26%
of which operating expenses	143	146	(2%)	129	110	17%
New life sales	Amounts in USD millions			Amounts in EUR millions		
High net worth businesses	151	123	23%	136	93	47%
Aegon Direct & Affinity Marketing Services	1	4	(86%)	1	3	(83%)
Strategic partnerships	41	24	68%	37	18	101%
<b>Total recurring plus 1/10 single</b>	<b>193</b>	<b>152</b>	<b>27%</b>	<b>173</b>	<b>114</b>	<b>52%</b>
New premium production accident and health insurance	Amounts in USD millions			Amounts in EUR millions		
	31	30	3%	28	23	24%

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Gross deposits (on and off balance)	<b>Amounts in USD millions</b>			<b>Amounts in EUR millions</b>		
Strategic partnerships	453	699	(35%)	408	526	(22%)
<b>Total gross deposits</b>	<b>453</b>	<b>699</b>	<b>(35%)</b>	<b>408</b>	<b>526</b>	<b>(22%)</b>

**Exchange rates**

Per 1 EUR	<b>Weighted average rate</b>	
US dollar	<b>2015</b>	2014
Chinese Yuan Renminbi	1.1100	1.3288
	6.9598	8.1902

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**Results 2015 Asia**

Net loss in 2015 amounted to USD 33 million, which was mainly driven by Other charges. Higher underlying earnings before tax in 2015 compared with 2014 were mainly the result of one-time charges in 2014 from assumption changes and model updates. Gross deposits decreased to USD 453 million primarily due to a pricing change on variable annuities in Japan to maintain profitability of new sales. New life sales of USD 193 million mainly related to universal life products sold out of Hong Kong and Singapore.

**Net income**

Net loss in 2015 amounted to USD 33 million. Net losses increased mainly due to charges of USD 68 million primarily the result of a more detailed approach to modeled reinsurance premiums. The charges were partially offset by a fair value gain relating to hedging results, gains on investments and the strong performance of Asia's high net worth business out of Hong Kong and Singapore.

**Underlying earnings before tax**

In Asia, underlying earnings before tax increased to USD 23 million in 2015 compared with a loss of USD 23 million in 2014.

- ⌚ Underlying earnings before tax from the high net worth businesses in Hong Kong and Singapore increased significantly to USD 31 million, compared with USD 4 million in 2014. This increase was the result of higher policy fees and the non-recurrence of a charge from model updates.
- ⌚ Earnings in Aegon Direct & Affinity Marketing Services (ADAMS) increased to USD 7 million driven by the divestment of its activities in Hong Kong and the restructuring of the Australian business.
- ⌚ Losses from Strategic Partnerships improved to USD 15 million due to lower new business strain in Japan, a more profitable product mix in China and lower expenses.

**Commissions and expenses**

Commissions and expenses increased by 5% in 2015 compared with 2014 to USD 268 million. Operating expenses decreased by 2% in 2015 compared with 2014 to USD 143 million. The decrease in operating expenses was mainly due to restructuring of ADAMS, partly offset by higher expenses in TLB, as a result of higher employee expenses to support growth.

**Production**

New life sales increased by 27% in 2015 to USD 193 million.

- ⌚ In the high net worth businesses in Hong Kong and Singapore, new life sales were up 23% to USD 151 million. This increase was mainly the result of higher sales of universal life products.
- ⌚ New life sales in Strategic Partnerships were up 68% to USD 41 million due to a strong increase from sales in China mainly driven by the continued success of the whole life critical illness product.

Gross deposits in Asia declined to USD 453 million. This was the result of management actions in Q2 2015 to lower commissions on variable annuities in Japan to maintain profitability of new sales.

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



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	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
<b>Net underlying earnings</b>	(34)	15	-	(26)	12	-
Tax on underlying earnings	12	30	(62%)	9	23	(62%)
<b>Underlying earnings before tax by business / country</b>						
High net worth businesses	17	91	(82%)	13	69	(81%)
Aegon Direct & Affinity Marketing Services	(2)	6	-	(1)	5	-
Strategic partnerships	(38)	(52)	28%	(29)	(39)	27%
<b>Underlying earnings before tax</b>	<b>(23)</b>	<b>46</b>	<b>-</b>	<b>(17)</b>	<b>34</b>	<b>-</b>
Fair value items	4	(21)	-	3	(16)	-
Gains / (losses) on investments	6	-	-	5	-	-
Net impairments	(1)	2	-	(1)	1	-
Other income / (charges)	5	(11)	-	4	(8)	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>(9)</b>	<b>15</b>	<b>-</b>	<b>(7)</b>	<b>11</b>	<b>-</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(3)	(11)	76%	(2)	(8)	76%
Income tax	(12)	(24)	49%	(9)	(18)	49%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	3	11	(76%)	2	8	(76%)
<b>Net income</b>	<b>(21)</b>	<b>(9)</b>	<b>(134%)</b>	<b>(16)</b>	<b>(7)</b>	<b>(133%)</b>
Life insurance gross premiums	1,458	809	80%	1,097	609	80%
Accident and health insurance premiums	136	142	(5%)	102	107	(5%)
<b>Total gross premiums</b>	<b>1,594</b>	<b>951</b>	<b>68%</b>	<b>1,199</b>	<b>717</b>	<b>67%</b>
Investment income	164	134	23%	124	101	23%
Fees and commission income	70	66	7%	53	49	7%
<b>Total revenues</b>	<b>1,829</b>	<b>1,151</b>	<b>59%</b>	<b>1,376</b>	<b>867</b>	<b>59%</b>
Commissions and expenses	256	292	(12%)	192	220	(13%)
of which operating expenses	146	144	1%	110	109	1%

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	Amounts in USD millions		Amounts in EUR millions			
New life sales						
High net worth businesses	123	55	124%	93	41	124%
Aegon Direct & Affinity Marketing Services	4	3	64%	3	2	63%
Strategic partnerships	24	31	(21%)	18	23	(21%)
<b>Total recurring plus 1/10 single</b>	<b>152</b>	<b>88</b>	<b>71%</b>	<b>114</b>	<b>67</b>	<b>71%</b>

	Amounts in USD millions		Amounts in EUR millions			
New premium production accident and health insurance	30	48	(37%)	23	36	(37%)

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Gross deposits (on and off balance)	Amounts in USD millions			Amounts in EUR millions		
Strategic partnerships	699	779	(10%)	526	587	(10%)
<b>Total gross deposits</b>	<b>699</b>	<b>779</b>	<b>(10%)</b>	<b>526</b>	<b>587</b>	<b>(10%)</b>

**Exchange rates**

	Weighted average rate	
Per 1 EUR	2014	2013
US dollar	1.3288	1.3272
Chinese Yuan Renminbi	8.1902	8.1637

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Net losses in 2014 amounted to USD 21 million. Lower underlying earnings before tax in 2014 compared with 2013 were mainly the result of a charge from model updates in the high net worth business in 2014. New life sales of USD 152 million mainly related to universal life products sold out of Hong Kong and Singapore. Gross deposits decreased to USD 699 million primarily due to adverse currency movements and lower sales of variable annuities in Japan.

**Net income**

Net loss in 2014 decreased to USD 21 million compared with net loss of USD 9 million in 2013. Losses were mainly driven by charges for model updates of USD 35 million in the Hong Kong and Singapore high net worth businesses.

**Underlying earnings before tax**

In Asia, underlying earnings before tax decreased significantly in 2014 to USD (23) million compared with USD 46 million in 2013.

- ⌚ This decrease in underlying earnings before tax was primarily the result of a charge from model updates in 2014 of USD 35 million in the high net worth businesses. In addition, 2013 included a gain of USD 29 million related to actuarial assumption changes and model updates.
- ⌚ Earnings in Aegon Direct & Affinity Marketing Services (ADAMS) decreased to nil in 2014 from USD 8 million in 2013, driven by restructuring charges and higher expenses.
- ⌚ Losses from Strategic Partnerships improved to USD 27 million due to lower new business strain in Japan and China, and lower expenses.

**Commissions and expenses**

Commissions and expenses decreased by 12% in 2014 compared with 2013 to USD 256 million. Operating expenses increased by 1% compared with 2013 to USD 146 million in 2014. The increase in operating expenses, despite favorable exchange rates

in 2014 compared with 2013, was mainly the result of higher marketing and sales expenses to support growth and restructuring charges in ADAMS.

**Production**

New life sales in 2014 increased 71% to USD 152 million compared with USD 88 million in 2013.

- ⌚ In the high net worth businesses in Hong Kong and Singapore, new life sales were up 124% to USD 123 million. This increase was mainly the result of higher sales of universal life products. Higher sales were driven by both expansion of distribution through brokers as well as increased productivity of existing brokers.
  - ⌚ New life sales in Strategic Partnerships decreased 21% to USD 24 million mainly due to changes in the distribution network in China.
- New premium production from accident & health insurance business decreased 37% in 2014 to USD 30 million compared with 2013, mainly a result of lower sales of the direct marketing activities.

Gross deposits in Asia declined to USD 699 million in 2014 compared with 2013 due to adverse currency movements and lower sales of variable annuities in Japan due to increased competition from alternative products.

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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.

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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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### **Overview of business lines**

#### **Life and savings**

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 premium<sup>1</sup>.

#### **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)<sup>2</sup>, 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)<sup>3</sup>.

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

1 Source: the China Insurance Regulatory Commission ([www.circ.gov.cn](http://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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**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

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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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**Results 2015 Asset Management**

Amounts in EUR millions	2015	2014	%
<b>Net underlying earnings</b>	<b>120</b>	80	51%
Tax on underlying earnings	50	36	41%
<b>Underlying earnings before tax by business / country</b>			
Americas	66	51	30%
The Netherlands	11	18	(40%)
United Kingdom	32	27	18%
Rest of World	(4)	(6)	37%
Strategic partnerships	65	25	156%
<b>Underlying earnings before tax</b>	<b>170</b>	<b>115</b>	<b>48%</b>
Fair value items	-	-	-
Gains / (losses) on investments	3	1	-
Net impairments	-	-	-
Other income / (charges)	(1)	(1)	(38%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>172</b>	<b>115</b>	<b>49%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	19	8	145%
Income tax	(50)	(36)	(41%)
	(19)	(8)	(145%)

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

<b>Net income</b>	<b>121</b>	<b>79</b>	<b>53%</b>
Investment income	7	4	52%
Fees and commission income	650	475	37%
<b>Total revenues</b>	<b>657</b>	<b>479</b>	<b>37%</b>
Commissions and expenses	487	368	32%
of which operating expenses	444	339	31%

<b>Gross deposits (on and off balance)</b>	<b>2015</b>	2014	%
Americas	2,329	3,123	(25%)
The Netherlands	4,080	2,542	60%
United Kingdom	7,538	5,388	40%
Rest of World	(389)	507	-
Strategic partnerships	20,165	7,780	159%
<b>Total gross deposits</b>	<b>33,722</b>	<b>19,340</b>	<b>74%</b>

### Exchange rates

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

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

**Net income**

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

**Underlying earnings before tax**

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

- ⌚ Underlying earnings before tax from the Americas increased by 30% to EUR 66 million in 2015 compared with 2014. This increase was primarily driven by favorable currency movements and lower employee expenses, partly offset by project-related expenses.
- ⌚ Underlying earnings before tax from the Netherlands decreased to EUR 11 million, compared with EUR 18 million in 2014, as higher management fee income and positive Dutch Mortgage Fund flows were offset by higher employee and project-related expenses.
- ⌚ Underlying earnings before tax from the United Kingdom increased to EUR 32 million in 2015 from EUR 27 million in 2014. This increase was a result of strong absolute return fund sales and favorable currency movements, partly offset by increased expenses due to growth of the business.
- ⌚ Underlying earnings before tax from Rest of World improved to a loss of EUR 4 million as higher management and performance fee income in Central & Eastern Europe were more than offset by expenses at the Holding.
- ⌚ Underlying earnings before tax from Strategic Partnerships increased to EUR 65 million in 2015. This was mainly the result of the first time inclusion of earnings from Aegon's partnership with La Banque Postale Asset Management and higher performance and management fees in AIFMC, of which performance fees totalled EUR 35 million.

**Commissions and expenses**

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

**Production**

Gross third-party flows increased by 74% to a record-high of EUR 34 billion. This increase was due to higher flows in the Dutch Mortgage Fund, higher absolute return fund sales in the United Kingdom, increased flows in Chinese money market funds, equity and bond funds and the inclusion of Aegon's share in La Banque Postale Asset Management's flows.

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

**Assets under management**



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Assets under management increased by EUR 43 billion in 2015 to EUR 345 billion compared to 2014. This was primarily driven by third-party net flows, the inclusion of Aegon's share in La Banque Postale Asset Management and favorable currency movements, partially offset by outflows in the general account and in the affiliate business.

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**Results 2014 Asset Management**

Amounts in EUR millions	2014	2013	%
<b>Net underlying earnings</b>	<b>80</b>	<b>62</b>	<b>29%</b>
Tax on underlying earnings	36	34	6%
 <b>Underlying earnings before tax by business / country</b>			
Americas	51	47	7%
The Netherlands	18	4	-
United Kingdom	27	19	44%
Rest of World	(6)	(3)	(144%)
Strategic partnerships	25	28	(9%)
<b>Underlying earnings before tax</b>	<b>115</b>	<b>95</b>	<b>21%</b>
Fair value items	-	-	-
Gains / (losses) on investments	1	(2)	-
Net impairments	-	-	-
Other income / (charges)	(1)	12	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>115</b>	<b>105</b>	<b>10%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	8	5	49%
Income tax	(36)	(32)	(13%)
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(8)	(5)	(49%)
<b>Net income</b>	<b>79</b>	<b>73</b>	<b>8%</b>

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Investment income	4	4	7%
Fees and commission income	475	432	10%
<b>Total revenues</b>	<b>479</b>	<b>437</b>	<b>10%</b>
Commissions and expenses	368	342	8%
of which operating expenses	339	318	7%
<b>Gross deposits (on and off balance)</b>	2014	2013	%
Americas	3,123	5,120	(39%)
The Netherlands	2,542	1,617	57%
United Kingdom	5,388	3,877	39%
Rest of World	507	(107)	-
Strategic partnerships	7,780	2,511	-
<b>Total gross deposits</b>	<b>19,340</b>	<b>13,018</b>	<b>49%</b>

	Weighted average rate	
<b>Exchange rates</b>		
Per 1 EUR	2014	2013
US dollar	1.3288	1.3272
Canadian dollar	1.4667	1.3674
Pound sterling	0.8061	0.8484
Hungarian florint	308.3758	296.3309
Chinese Yuan Renminbi	8.1902	8.1637

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Net income in 2014 increased to EUR 79 million compared with 2013 as a result of higher underlying earnings before tax. Higher underlying earnings before tax in 2014 compared with 2013 were mainly the result of higher management and performance fees, favorable market and currency movements. Gross flows in third-party asset management increased by 49% to EUR 19 billion as a result of higher inflows in the Netherlands and China.

**Net income**

Net income in 2014 increased by 8% to EUR 79 million compared with 2013. This was mainly driven by higher underlying earnings before tax.

**Underlying earnings before tax**

Underlying earnings before tax increased 21% in 2014 to EUR 115 million compared with 2013, as higher earnings in the Americas, the Netherlands, the United Kingdom and Strategic Partnerships more than offset a decrease in earnings in Rest of World.

- ⌚ Underlying earnings before tax from the Americas increased by 7% to EUR 51 million in 2014 compared with 2013. This increase was primarily driven by higher performance fees.
- ⌚ Underlying earnings before tax from the Netherlands increased to EUR 18 million, compared with EUR 4 million in 2014 due to higher performance fee income, net flows in the Dutch Mortgage Fund, and lower expenses.
- ⌚ Underlying earnings before tax from the United Kingdom increased to EUR 27 million in 2014 from EUR 19 million in 2013. This increase in underlying earnings before tax was a result of strong absolute return fund sales and favourable currency movements, partly offset by increased expenses.
- ⌚ Underlying earnings before tax from Rest of World decreased to a loss of EUR 6 million due to higher expenses at the Holding.
- ⌚ Underlying earnings before tax from Strategic Partnerships decreased to EUR 24 million in 2014. This was mainly the result of lower performance fees in Saemor & Pelargos, partly offset by higher performance fees in AIFMC.

**Commissions and expenses**

Commissions and expenses increased by 8% in 2014 to EUR 368 million compared with 2013. Operating expenses increased by 7% in 2014 to EUR 339 million compared with 2013. The increase in operating expenses was mainly the result of growth of the business.

**Production**

Gross third-party flows increased by 49% in 2014 compared with 2013 and amounted to EUR 19 billion. This increase was mainly driven by strong growth in Chinese money market funds, absolute return fund sales in the United Kingdom and in the Dutch Mortgage Fund.

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Third party net flows increased by 21% in 2014 compared with 2013 to EUR 4 billion, as higher net flows in the Netherlands and China more than offset net outflows from the Americas and the United Kingdom.

### **Assets under management**

Assets under management increased by EUR 62 billion in 2014 to EUR 302 billion. This was primarily driven by higher third-party net flows, favorable market and currency movements.

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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.

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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.

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 101, 106 and 107 of this Supplemental 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**

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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 divestment 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 341-360 of this Supplemental 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

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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,



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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 24.9 billion (EUR 24.8 billion on December 31, 2014), its gross financial leverage ratio was 28.4% (28.9% on December 31, 2014) and its fixed charge coverage was 6.2x (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.

Aegon N.V.

Aegon USA

Aegon UK

Agency

Aegon the  
Netherlands

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December 31, 2015				
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.

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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.

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### 94 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:

<b>Capital requirements</b>	Legal/regulatory minimum capital requirement	Actual capitalization	Excess over legal/regulatory minimum
United States <sup>1)</sup>	100% Authorized Control Level (NAIC RBC ACL)	~920% of combined ACL	~EUR 6.7 bln
The Netherlands <sup>2)</sup>	100% Solvency I	~240% Solvency I	~EUR 2.7 bln
United Kingdom <sup>3)</sup>	100% Solvency I (Pillar 1)	~165% Solvency I (Pillar 1)	~EUR 1.1 bln

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

<sup>2</sup> Excluding the banking activities.

<sup>3</sup> 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 arbitrational 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.

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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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### 96 Business overview **Regulation and Supervision**

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 87. 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.

**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

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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 the regulatory regimes in the United States) does not categorize own

funds into tiers or defines tiers which are significantly different from those established under the Solvency II Directive, then, in line with EIOPA's opinion of January 27, 2016 (EIOPA-BoS-16-008), the own funds brought in by the Deduction and Aggregation Method are allocated to tiers according to the principles laid down in Articles 87 to 99 of the Solvency II Directive for each individual third-country insurance undertaking. Entities belonging to other financial sectors are usually included in the Group Solvency Calculation using prudential requirements applicable to that specific sector and using the Deduction and Aggregation Method.

Solvency II group supervision is exercised by a combination of the supervisory authorities of the local insurance and reinsurance entities and the group supervisor, which in Aegon's case is DNB. An important role in the cooperation between the supervisory authorities in the context of group supervision is played by the college of supervisors, in which the local and group supervisors are represented. This college is chaired by the group supervisor.

**Financial conglomerate supervision**

Since the beginning of October 2009, Aegon has been subject to supplemental group supervision by DNB in accordance with the requirements of the EU's Financial Conglomerate Directive. Supplemental group supervision pursuant to the Financial Conglomerate Directive includes supplementary capital adequacy requirements for financial conglomerates and supplementary supervision on risk concentrations and intra-group transactions in the financial conglomerate.

**G-SII designation**

On November 3, 2015, Aegon was 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 106 and 107.

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](http://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 116 and 119 of this Supplemental Annual Report and in the Corporate Governance Statement published on Aegon's corporate website, [aegon.com](http://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 106 and 107.

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**

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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](http://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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<b>Name</b>	<b>Regular SB meeting</b>	<b>SB conference call</b>	<b>Audit Committee</b>	<b>Risk Committee</b>	<b>Remuneration Committee</b>	<b>Nomination &amp; Governance Committee</b>	<b>Combined Audit &amp; Risk Committee</b>
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 <sup>1)</sup>	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 <sup>1)</sup>	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

<sup>1</sup> Where a Supervisory Board member retired from the Supervisory Board, stepped down from a Committee or was appointed throughout the year, only meetings during his / her tenure are taken into account.

Members of the Executive Board and Management Board 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.



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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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### 100 Governance **Report of the Supervisory Board**

#### **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 Systemically 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**

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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

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of 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.

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The Audit Committee reports to the Supervisory Board on its activities, identifying any matters about which it considers action or improvements are needed, and making recommendations as to the steps to be taken. For more information about the functioning of the Audit Committee, please see the Audit Committee Charter on [aegon.com](http://aegon.com).

### Committee meetings

In 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](http://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**

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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](http://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



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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.

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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 Providian Corp., a former Managing Director of Chrysalis Ventures, and former Chairman of the Board of Directors of Aegon USA Inc. He was first appointed to Aegon's Supervisory Board in 2004. His current and final term will end in 2016. Mr. Bailey is also a senior advisor to Chrysalis Ventures Inc. (not listed).

### **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 belongingsbeleid (Rbb) Wft 2014) from DNB (the Dutch

Central Bank), and the 2015 Act on the Remuneration Policy of Financial Undertakings (Wet belongingsbeleid 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.

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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 Staff<sup>1</sup>); 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:

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- ⓘ 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:

<b>Base fee for membership of the Supervisory Board</b>	<b>EUR / year</b>
Chairman	80,000
Vice-Chairman	50,000
Member	40,000
<b>Fee for membership of a Supervisory Board committee</b>	<b>EUR / year</b>
Chairman of the Audit Committee	13,000
Member of the Audit Committee	8,000
Chairman of other committees	10,000
Member of other committees	5,000
<b>Attendance fees</b>	<b>EUR</b>
Extra Supervisory Board meeting	3,000
Audit Committee	3,000
Other committees	2,000

Information on members of the Supervisory Board and the composition of Aegon’s four committees – Audit, Nomination and Governance, Remuneration and Risk can be found on pages 101 - 102.

**Supervisory Board Remuneration Report 2015**

Members of Aegon's Supervisory Board received the following payments (in EUR) in 2015:

in EUR	<b>2015</b>	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
<b>Total for active members</b>	<b>1,013,375</b>	<b>790,375</b>
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
<b>Total remuneration</b>	<b>1,052,000</b>	<b>925,125</b>
VAT liable on Supervisory Board remuneration	220,920	194,276
<b>Total</b>	<b>1,272,920</b>	<b>1,119,401</b>

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**

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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%.

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1 Based on VWAP December 15, 2014 January 15, 2015.

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Objectives	Maximum % of variable compensation	Performance indicator
Group financial IFRS based	21%	Group underlying earnings after tax, return on equity Group market consistent value of new business
Group financial risk adjusted based	27%	Operational free cash flow
Group sustainability	12%	Group pre-tax return on required capital Objective measuring corporate responsibility and strategy Individual basket of strategic and personal objectives
Personal objectives	40%	related to Aegon's strategy

Each year a one-year target is set for each performance indicator.

At an aggregated level, payments<sup>1</sup> 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:

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- ⋮ the outcome of a re-assessment of the performance against the original financial performance indicators;
- ⋮ a significant downturn in the Company's financial performance;
- ⋮ evidence of misbehavior or serious error by the participant;
- ⋮ a significant failure in risk management; and
- ⋮ significant changes in the Company's economic or regulatory capital base.

The Supervisory Board asks the Remuneration Committee to review these criteria in detail prior to each vesting and to document its findings. Based on this analysis, the Committee may then put forward a proposal to the Supervisory Board to adjust unvested variable compensation. Deferred variable compensation may only be adjusted downwards. Ex-post, risk-based assessments concern deferred variable compensation, not fixed compensation.

### **Circuit breaker**

For each performance indicator, variable compensation is only paid if the threshold level set for that performance indicator is reached.

### **Claw-back provision**

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.

<sup>1</sup> 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**

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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 and the development of the Company's earnings. Each member has duties related to his or her specific area of expertise.

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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.

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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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### 118 Governance **Corporate governance**

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 108 and note 53 of the notes to Aegon's consolidated financial statements of this Supplemental 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.

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**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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120 Governance **Differences between Dutch and US company laws**

## **Differences between Dutch and US company laws**

Dutch company law is different from US law in the following respects: Aegon, like most large Dutch public companies, has a two-tier governance system comprising an Executive Board and a Supervisory Board. The Executive Board is the executive body. Its members are not Aegon employees and have an engagement agreement with the Company. Members of the Executive Board are appointed and dismissed by the General Meeting of Shareholders, as inside directors are in the United States. The Remuneration Policy as regards the members of the Executive Board is adopted by the General Meeting of Shareholders. The number of the Executive Board members and the terms of their engagement are determined by the Supervisory Board within the scope of the adopted Remuneration Policy.

The Supervisory Board performs supervisory and advisory functions only, and its members are outsiders that are not employed by the Company. The Supervisory Board has the duty to supervise the performance of the Executive Board, the Company's general course of affairs and the business connected with it. The Supervisory Board also assists the Executive Board by giving advice. Other powers of the Supervisory Board include the prior approval of certain important resolutions of the Executive Board. Members of the Supervisory Board are appointed for a four-year term and may be dismissed by the General Meeting of Shareholders. The remuneration of Supervisory Board members is fixed by the General Meeting of Shareholders. Resolutions entailing a significant change in the identity or character of the Company or its business require the approval of the General Meeting of Shareholders.

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## 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](http://aegon.com).

**Table of Contents**122 Governance **Controls and procedures****Controls and procedures****Disclosure controls and procedures**

At the end of the period covered by this Annual Report, Aegon's management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer (CEO) and 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.

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 page 337.

The Hague, the Netherlands, March 25, 2016



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

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## 126 Exchange rates

**Exchange rates****Exchange rates at December 31, 2015**

		EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
1	EUR	-	1.0863	0.7370	1.5090	7.0540	27.0220	316.0051	4.2897	4.5215	3.1707	26.1017
1	USD	0.9206	-	0.6784	1.3891	6.4936	24.8753	290.9004	3.9489	4.1623	2.9188	24.0281
1	GBP	1.3569	1.4739	-	2.0475	9.5712	36.6649	428.7722	5.8205	6.1350	4.3022	35.4161
1	CAD	0.6627	0.7199	0.4884	-	4.6746	17.9072	209.4136	2.8427	2.9964	2.1012	17.2973
1	CNY	0.1418	0.1540	0.1045	0.2139	-	3.8307	44.7980	0.6081	0.6410	0.4495	3.7003
100	CZK	3.7007	4.0201	2.7274	5.5843	26.1047	-	1,169.4364	15.8748	16.7327	11.7338	96.5943
100	HUF	0.3165	0.3438	0.2332	0.4775	2.2322	8.5511	-	1.3575	1.4308	1.0034	8.2599
1	PLN	0.2331	0.2532	0.1718	0.3518	1.6444	6.2993	73.6660	-	1.0540	0.7391	6.0847
1	RON	0.2212	0.2403	0.1630	0.3337	1.5601	5.9763	69.8894	0.9487	-	0.7012	5.7728
1	TRY	0.3154	0.3426	0.2324	0.4759	2.2247	8.5224	99.6641	1.3529	1.4260	-	8.2322
1	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**

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		EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
1	EUR	-	1.2101	0.7760	1.4015	7.5072	27.7150	315.7500	4.2981	4.4837	2.8288	19.1412
1	USD	0.826	-	0.641	1.158	6.204	22.903	260.929	3.552	3.705	2.338	15.818
1	GBP	1.289	1.559	-	1.806	9.674	35.715	406.894	5.539	5.778	3.645	24.666
1	CAD	0.714	0.863	0.554	-	5.357	19.775	225.294	3.067	3.199	2.018	13.658
1	CNY	0.133	0.161	0.103	0.187	-	3.692	42.060	0.573	0.597	0.377	2.550
100	CZK	3.608	4.366	2.800	5.057	27.087	-	1,139.275	15.508	16.178	10.207	69.064
100	HUF	0.317	0.383	0.246	0.444	2.378	8.778	-	1.361	1.420	0.896	6.062
1	PLN	0.233	0.282	0.181	0.326	1.747	6.448	73.463	-	1.043	0.658	4.453
1	RON	0.223	0.270	0.173	0.313	1.674	6.181	70.422	0.959	-	0.631	4.269
1	TRY	0.354	0.428	0.274	0.495	2.654	9.797	111.620	1.519	1.585	-	6.767
1	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
1	EUR	-	1.1100	0.7256	1.4173	6.9598	27.2662	309.3147	4.1819	4.4428	3.0206	24.1414
1	USD	0.9009	-	0.6537	1.2768	6.2701	24.5641	278.6619	3.7675	4.0025	2.7213	21.7490
1	GBP	1.3782	1.5298	-	1.9533	9.5918	37.5775	426.2882	5.7634	6.1229	4.1629	33.2709
1	CAD	0.7056	0.7832	0.5120	-	4.9106	19.2381	218.2422	2.9506	3.1347	2.1312	17.0334
1	CNY	0.1437	0.1595	0.1043	0.2036	-	3.9177	44.4430	0.6009	0.6384	0.4340	3.4687
100	CZK	3.6675	4.0710	2.6612	5.1980	25.5254	-	1,134.4254	15.3373	16.2942	11.0782	88.5397
100	HUF	0.3233	0.3589	0.2346	0.4582	2.2501	8.8150	-	1.3520	1.4363	0.9765	7.8048
1	PLN	0.2391	0.2654	0.1735	0.3389	1.6643	6.5201	73.9651	-	1.0624	0.7223	5.7728
1	RON	0.2251	0.2498	0.1633	0.3190	1.5665	6.1372	69.6216	0.9413	-	0.6799	5.4338
1	TRY	0.3311	0.3675	0.2402	0.4692	2.3041	9.0267	102.4017	1.3845	1.4708	-	7.9923
1	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	15.8120

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1	USD	0.753	-	0.607	1.104	6.164	20.707	232.071	3.149	3.344	2.187	11.899
1	GBP	1.241	1.648	-	1.820	10.160	34.134	382.553	5.190	5.512	3.605	19.615
1	CAD	0.682	0.906	0.550	-	5.584	18.760	210.251	2.853	3.029	1.981	10.781
1	CNY	0.122	0.162	0.098	0.179	-	3.360	37.652	0.511	0.542	0.355	1.931
100	CZK	3.634	4.829	2.930	5.330	29.766	-	1,120.743	15.206	16.147	10.561	57.466
100	HUF	0.324	0.431	0.261	0.476	2.656	8.923	-	1.357	1.441	0.942	5.128
1	PLN	0.239	0.318	0.193	0.351	1.958	6.576	73.705	-	1.062	0.695	3.779
1	RON	0.225	0.299	0.181	0.330	1.843	6.193	69.409	0.942	-	0.654	3.559
1	TRY	0.344	0.457	0.277	0.505	2.818	9.468	106.117	1.440	1.529	-	5.441
1	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
1	EUR	-	1.3272	0.8484	1.3674	8.1637	25.9238	296.3309	4.1940	4.4167	2.5305	10.8249
1	USD	0.753	-	0.639	1.030	6.151	19.533	223.275	3.160	3.328	1.907	8.156
1	GBP	1.179	1.564	-	1.612	9.622	30.556	349.282	4.943	5.206	2.983	12.759
1	CAD	0.731	0.971	0.620	-	5.970	18.958	216.711	3.067	3.230	1.851	7.916
1	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
	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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1	PLN	0.238	0.316	0.202	0.326	1.947	6.181	70.656	-	1.053	0.603	2.581
1	RON	0.226	0.300	0.192	0.310	1.848	5.869	67.093	0.950	-	0.573	2.451
1	TRY	0.395	0.524	0.335	0.540	3.226	10.245	117.104	1.657	1.745	-	4.278
1	UAH	0.092	0.123	0.078	0.126	0.754	2.395	27.375	0.387	0.408	0.234	-

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For the year ended December 31

Amounts in EUR million (except per share data)	Note	2015 <sup>1)</sup>	2014 <sup>1)</sup>	2013 <sup>1)</sup>
Premium income	6	22,925	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
<b>Total revenues</b>		<b>33,902</b>	<b>30,157</b>	<b>29,805</b>
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
<b>Total income</b>		<b>37,827</b>	<b>46,338</b>	<b>48,430</b>
Premiums paid to reinsurers	6	2,979	3,011	3,108
Policyholder claims and benefits	12	26,443	36,214	37,688
Profit sharing and rebates	13	31	17	28
Commissions and expenses	14	6,598	5,629	5,609
Impairment charges / (reversals)	15	1,251	87	294
Interest charges and related fees	16	412	371	355
Other charges	17	774	172	134
<b>Total charges</b>		<b>38,489</b>	<b>45,502</b>	<b>47,215</b>
<b>Income before share in profit / (loss) of joint ventures, associates and tax</b>		<b>(661)</b>	<b>836</b>	<b>1,215</b>
Share in profit / (loss) of joint ventures		142	56	-
Share in profit / (loss) of associates		5	24	21
<b>Income / (loss) before tax</b>		<b>(514)</b>	<b>916</b>	<b>1,236</b>
Income tax	18	83	(151)	(233)
<b>Net income / (loss)</b>		<b>(431)</b>	<b>766</b>	<b>1,003</b>
<b>Net income / (loss) attributable to:</b>				
Equity holders of Aegon N.V.		(432)	765	1,001
Non-controlling interests		1	1	3
<b>Earnings per share (EUR per share)</b>	19			
Basic earnings per common share		(0.27)	0.29	0.37
Basic earnings per common share B		(0.01)	0.01	0.01
Diluted earnings per common share		(0.27)	0.29	0.37
Diluted earnings per common share B		(0.01)	0.01	0.01

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- <sup>1</sup> Amounts for 2015, 2014 and 2013 have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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

For the year ended December 31

Amounts in EUR million	2015 <sup>1)</sup>	2014 <sup>1)</sup>	2013 <sup>1)</sup>
Net income	(431)	766	1,003
<b>Items that will not be reclassified to profit or loss:</b>			
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)
<b>Items that may be reclassified to profit or loss:</b>			
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	1,419	1,654	(722)
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)
<b>Total other comprehensive income</b>	<b>(380)</b>	<b>6,062</b>	<b>(3,393)</b>
<b>Total comprehensive income</b>	<b>(811)</b>	<b>6,827</b>	<b>(2,390)</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of Aegon N.V.	(811)	6,828	(2,387)
Non-controlling interests	-	(1)	(3)

<sup>1)</sup> Amounts for 2015, 2014 and 2013 have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents**130 **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 <sup>1)</sup>	2014 <sup>1)</sup>	January 1, 2014 <sup>1)</sup>
<b>Assets</b>				
Intangible assets	21	1,901	2,073	2,272
Investments	22	160,478	153,219	135,533
Investments for account of policyholders	23	200,226	191,467	165,032
Derivatives	24	11,545	28,014	13,531
Investments in joint ventures	25	1,561	1,468	1,426
Investments in associates	26	242	140	470
Reinsurance assets	27	11,257	9,593	10,344
Defined benefit assets	41	41	38	34
Deferred tax assets	43	25	27	164
Deferred expenses	28	10,997	10,019	9,668
Assets held for sale	29	-	9,881	-
Other assets and receivables	30	7,549	7,563	7,357
Cash and cash equivalents	31	9,594	10,610	5,691
<b>Total assets</b>		<b>415,415</b>	<b>424,112</b>	<b>351,523</b>
<b>Equity and liabilities</b>				
Shareholders' equity	32	22,441	23,847	17,589
Other equity instruments	33	3,800	3,827	5,015
Issued capital and reserves attributable to equity holders of Aegon N.V.		26,241	27,674	22,605
Non-controlling interests		9	9	10
<b>Group equity</b>		<b>26,250</b>	<b>27,683</b>	<b>22,614</b>
Subordinated borrowings	34	759	747	44
Trust pass-through securities	35	157	143	135
Insurance contracts	36	123,042	111,927	101,769
Insurance contracts for account of policyholders	36	112,679	102,250	84,311
Investment contracts	37	17,718	15,359	14,545
Investment contracts for account of policyholders	37	90,119	91,849	82,608
Derivatives	24	10,890	26,048	11,838
Borrowings	39	12,445	14,158	11,830
Provisions	40	175	322	182
Defined benefit liabilities	41	4,471	4,404	3,060
Deferred gains	42	112	82	88
Deferred tax liabilities	43	2,252	2,906	1,425

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Liabilities held for sale	29	-	7,810	-
Other liabilities	44	14,074	18,152	16,815
Accruals	45	272	272	259
<b>Total liabilities</b>		<b>389,165</b>	<b>396,429</b>	<b>328,909</b>
<b>Total equity and liabilities</b>		<b>415,415</b>	<b>424,112</b>	<b>351,523</b>

<sup>1</sup> Amounts for 2015 and 2014 have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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

For the year ended December 31, 2015

Amounts in EUR million At January 1, 2015 <sup>3)</sup>	Note	Share capital	Retained earnings	Revaluation reserves	Remea- surement of defined benefit plans	Other reserves	Other equity instru- ments	Issued capital and reserves	Non-con- trolling interests	Total
Net income / (loss) recognized in the income statement		-	(432)	-	-	-	-	(432)	1	(431)
<b>Other comprehensive income:</b>										
<b>Items that will not be reclassified to profit or loss:</b>										
Changes in revaluation reserve real estate held for own use		-	-	13	-	-	-	13	-	13
Remeasurements of defined benefit plans		-	-	-	240	-	-	240	-	240
Income tax relating to items that will not be reclassified		-	-	(2)	(75)	-	-	(77)	-	(77)
<b>Items that may be reclassified subsequently to profit or loss:</b>										
Gains / (losses) on revaluation of available-for-sale investments		-	-	(2,175)	-	-	-	(2,175)	-	(2,175)
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments		-	-	(485)	-	-	-	(485)	-	(485)
Changes in cash flow hedging reserve		-	-	446	-	-	-	446	-	446
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	(86)	1,505	-	1,419	-	1,419
Equity movements of joint ventures		-	-	-	-	(8)	-	(8)	-	(8)
Equity movements of associates		-	-	-	-	(1)	-	(1)	-	(1)
Disposal of group assets <sup>2)</sup>		-	-	(468)	-	(76)	-	(544)	-	(544)
Income tax relating to items that may be reclassified		-	-	836	-	(52)	-	783	-	783
Other		-	10	-	-	-	-	10	(1)	9
<b>Total other comprehensive income / (loss)</b>		-	<b>10</b>	<b>(1,837)</b>	<b>79</b>	<b>1,369</b>	-	<b>(379)</b>	<b>(1)</b>	<b>(380)</b>
<b>Total comprehensive income / (loss) for 2015</b>		-	<b>(422)</b>	<b>(1,837)</b>	<b>79</b>	<b>1,369</b>	-	<b>(811)</b>	-	<b>(811)</b>
Shares issued and withdrawn		1	-	-	-	-	-	1	-	1
Issuance and purchase of treasury shares		-	52	-	-	-	-	52	-	52
Dividends paid on common shares	(211)	(292)	-	-	-	-	-	(503)	-	(503)
Dividend withholding tax reduction		-	1	-	-	-	-	1	-	1
Coupons on perpetual securities		-	(111)	-	-	-	-	(111)	-	(111)
		-	(28)	-	-	-	-	(28)	-	(28)

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Coupons on non-cumulative subordinated notes

Share options and incentive plans

At December 31, 2015

32, 33	8,387	7,832	6,471	(1,532)	1,283	3,800	26,241	9	26,250
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<sup>1</sup> Issued capital and reserves attributable to equity holders of Aegon N.V.

<sup>2</sup> Refer to note 51 for details on the disposals

<sup>3</sup> Amounts have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents**132 **Consolidated financial statements of Aegon N.V.****Consolidated statement of changes in equity of Aegon N.V.**

For the year ended December 31, 2014

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Remeasurement of defined benefit plans	Other reserves	Other equity instruments	Issued capital and reserves <sup>1)</sup>	Non-controlling interests	Total
At January 1, 2014 <sup>2)</sup>		8,701	8,345	3,023	(706)	(1,773)	5,015	22,605	10	22,614
Net income / (loss) recognized in the income statement		-	765	-	-	-	-	765	1	766
<b>Other comprehensive income:</b>										
<b>Items that will not be reclassified to profit or loss:</b>										
Changes in revaluation reserve real estate held for own use		-	-	9	-	-	-	9	-	9
Remeasurements of defined benefit plans		-	-	-	(1,156)	-	-	(1,156)	-	(1,156)
Income tax relating to items that will not be reclassified		-	-	(2)	335	-	-	333	-	333
<b>Items that may be reclassified subsequently to profit or loss:</b>										
Gains / (losses) on revaluation of available-for-sale investments		-	-	6,759	-	-	-	6,759	-	6,759
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments		-	-	(702)	-	-	-	(702)	-	(702)
Changes in cash flow hedging reserve		-	-	1,188	-	-	-	1,188	-	1,188
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	(84)	1,738	-	1,654	-	1,654
Equity movements of joint ventures		-	-	-	-	10	-	10	-	10
Equity movements of associates		-	-	-	-	(10)	-	(10)	-	(10)
Income tax relating to items that may be reclassified		-	-	(1,968)	-	(50)	-	(2,018)	-	(2,018)
Other		-	(4)	-	-	-	-	(4)	(1)	(5)
<b>Total other comprehensive income / (loss)</b>		-	(4)	5,285	(905)	1,687	-	6,063	(1)	6,062
<b>Total comprehensive income / (loss) for 2014</b>		-	761	5,285	(905)	1,687	-	6,828	(1)	6,827
Issuance and purchase of treasury shares		-	(67)	-	-	-	-	(67)	-	(67)
Other equity instruments redeemed		-	11	-	-	-	(1,184)	(1,173)	-	(1,173)
Dividends paid on common shares		(104)	(266)	-	-	-	-	(370)	-	(370)
Coupons on perpetual securities		-	(128)	-	-	-	-	(128)	-	(128)
Coupons on non-cumulative subordinated notes		-	(24)	-	-	-	-	(24)	-	(24)
Share options and incentive plans		-	7	-	-	-	(4)	3	-	3
<b>At December 31, 2014</b>	<b>32, 33</b>	<b>8,597</b>	<b>8,639</b>	<b>8,308</b>	<b>(1,611)</b>	<b>(86)</b>	<b>3,827</b>	<b>27,674</b>	<b>9</b>	<b>27,683</b>

<sup>1</sup> Issued capital and reserves attributable to equity holders of Aegon N.V.<sup>2</sup>

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Amounts have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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

For the year ended December 31, 2013

	Note	Share capital	Retained earnings	Revaluation reserves	Remeasurement of defined benefit plans	Other reserves	Other equity instruments	Issued capital and reserves <sup>1)</sup>	Non-controlling interests	Total
Amounts in EUR million										
At January 1, 2013 (as previously stated)		9,099	8,010	6,116	(1,085)	(1,103)	5,018	26,055	13	26,068
Changes in accounting policies relating to Deferred cost of reinsurance		-	(124)	-	-	-	-	(124)	-	(124)
At January 1, 2013 (restated) <sup>2)</sup>		9,099	7,886	6,116	(1,085)	(1,103)	5,018	25,930	13	25,944
Net income / (loss) recognized in the income statement		-	1,001	-	-	-	-	1,001	3	1,003
<b>Other comprehensive income:</b>										
<b>Items that will not be reclassified to profit or loss:</b>										
Changes in revaluation reserve real estate held for own use		-	-	(6)	-	-	-	(6)	-	(6)
Remeasurements of defined benefit plans		-	-	-	562	-	-	562	-	562
Income tax relating to items that will not be reclassified		-	-	1	(202)	-	-	(201)	-	(201)
<b>Items that may be reclassified subsequently to profit or loss:</b>										
Gains / (losses) on revaluation of available-for-sale investments		-	-	(3,376)	-	-	-	(3,376)	-	(3,376)
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments		-	-	(435)	-	-	-	(435)	-	(435)
Changes in cash flow hedging reserve		-	-	(555)	-	-	-	(555)	-	(555)
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	19	(741)	-	(722)	-	(722)
Equity movements of joint ventures		-	-	-	-	(4)	-	(4)	-	(4)
Equity movements of associates		-	-	-	-	54	-	54	-	54
Disposal of group assets		-	3	-	-	-	-	3	(3)	-
Income tax relating to items that may be reclassified		-	-	1,274	-	21	-	1,295	-	1,295
Transfer from / to other headings		-	(3)	3	-	-	-	-	-	-
Other		-	(4)	-	-	-	-	(4)	(2)	(6)
<b>Total other comprehensive income / (loss)</b>		-	(4)	(3,093)	379	(670)	-	(3,388)	(5)	(3,393)
<b>Total comprehensive income / (loss) for 2013</b>		-	997	(3,093)	379	(670)	-	(2,387)	(3)	(2,390)
Shares issued and withdrawn		2	-	-	-	-	-	2	-	2
Repurchased and sold own shares	(400)	(1)	-	-	-	-	-	(401)	-	(401)
Treasury shares		-	(77)	-	-	-	-	(77)	-	(77)
Dividends paid on common shares		-	(240)	-	-	-	-	(240)	-	(240)
Preferred dividend		-	(83)	-	-	-	-	(83)	-	(83)

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Coupons on perpetual securities	-	(146)	-	-	-	-	(146)	-	(146)	
Coupons on non-cumulative subordinated notes	-	(21)	-	-	-	-	(21)	-	(21)	
Share options and incentive plans	-	30	-	-	-	(3)	27	-	27	
<b>At December 31, 2013</b>	<b>32, 33</b>	<b>8,701</b>	<b>8,345</b>	<b>3,023</b>	<b>(706)</b>	<b>(1,773)</b>	<b>5,015</b>	<b>22,605</b>	<b>10</b>	<b>22,614</b>

<sup>1</sup> Issued capital and reserves attributable to equity holders of Aegon N.V.

<sup>2</sup> Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

**Table of Contents**134 **Consolidated financial statements of Aegon N.V.****Consolidated cash flow statement of Aegon N.V.**

For the year ended December 31

Amounts in EUR million	Note	2015 <sup>3)</sup>	2014 <sup>3)</sup>	2013 <sup>3)</sup>
<b>Income / (loss) before tax</b>		<b>(514)</b>	916	1,236
Results from financial transactions		(896)	(13,640)	(16,219)
Amortization and depreciation		1,519	944	964
Impairment losses		1,261	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)
<b>Adjustments of non-cash items</b>		<b>2,407</b>	<b>(13,671)</b>	<b>(14,564)</b>
Insurance and investment liabilities		3,381	6,375	(679)
Insurance and investment liabilities for account of policyholders		(3,343)	12,302	18,787
Accrued expenses and other liabilities		(2,077)	2,147	(2,509)
Accrued income and prepayments		(1,387)	(2,266)	(927)
<b>Changes in accruals</b>		<b>(3,426)</b>	<b>18,559</b>	<b>14,672</b>
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
<b>Cash flow movements on operating items not reflected in income</b>		<b>2,875</b>	<b>(1,843)</b>	<b>(3,180)</b>
Tax paid		(405)	148	(164)
Other		(23)	12	(9)
<b>Net cash flows from operating activities</b>		<b>914</b>	<b>4,122</b>	<b>(2,011)</b>
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)
Acquisition of subsidiaries, joint ventures and associates, net of cash		(239)	(95)	(291)
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
<b>Net cash flows from investing activities</b>		<b>615</b>	<b>(71)</b>	<b>516</b>
Issuance of share capital		1	-	2
Issuance and purchase of treasury shares		(213)	(199)	(92)
Proceeds from TRUPS <sup>1)</sup> , subordinated loans and borrowings		1,821	3,862	1,056
Repayment of perpetuals		-	(1,173)	-
Repayment of share premium		-	-	(401)
Repayment of TRUPS <sup>1)</sup> , 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)
<b>Net cash flows from financing activities</b>		<b>(2,785)</b>	<b>715</b>	<b>(2,271)</b>

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<b>Net increase / (decrease) in cash and cash equivalents <sup>2)</sup></b>		<b>(1,257)</b>	<b>4,766</b>	<b>(3,766)</b>
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)
<b>Net cash and cash equivalents at the end of the year</b>	<b>31</b>	<b>9,593</b>	<b>10,649</b>	<b>5,652</b>

<sup>1</sup> Trust pass-through securities.

<sup>2</sup> 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).

<sup>3</sup> Amounts for 2015, 2014 and 2013 have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

The cash flow statement is prepared according to the indirect method.

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**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 Supplemental Annual Report.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 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. The effect of the accounting policy changes and segment reporting changes as included in note 2.1.2 and note 2.4 respectively were approved by the Executive Board and Supervisory Board on April 14, 2016.

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



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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	22,441	23,847	17,589	(431)	766	1,003
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)
<b>In accordance with IFRS-EU</b>	<b>22,684</b>	<b>24,183</b>	<b>17,496</b>	<b>(523)</b>	<b>1,195</b>	<b>871</b>

**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 Voluntary changes in accounting policies**

On January 13, 2016, Aegon provided an update on its strategic plans at its Analyst & Investor Conference. Following this update Aegon adopted voluntary changes in accounting policies, effective January 1, 2016, which are applied retrospectively for all periods presented. Firstly, Aegon adopted a group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. Also, Aegon made two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom. The changes in the United Kingdom do not impact other reporting units within Aegon as these are changes specific to Aegon UK. However, these changes do increase alignment with other reporting units within Aegon.

Aegon has furnished its 2015 financial statements for these changes and filed 2015 supplemental financial statements on Form 6-K. As Aegon is aware that the changes which are effective as of January 1, 2016 have significant impact on its comparatives, Aegon amended its 2015 financial statements prior to issuance of the 2016 financial statements in order to increase the usefulness of the comparative information for users of the financial statements.

In the paragraphs below, details are provided for these changes in accounting policies including the impact on shareholders equity and net income.

**Accounting related to certain reinsurance transactions**

Aegon adopted one single group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. The previous accounting policy recorded a deferred cost of reinsurance which was subsequently amortized. Under the new accounting policy, when the company enters into a reinsurance contract as part of a plan to exit a business, an immediate gain or loss will be recognized in the income statement.

For purposes of this accounting policy, a business is defined as designated insurance liabilities to be disposed of through reinsurance transactions. The insurance liabilities are designated according to their homogenous risk profiles, possible examples include but are not limited to geographical area, product type, distribution channel, policyholder profiles, and policy form or riders. Details for the deferred cost of reinsurance are included in note 2.13 Deferred expenses.

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**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 adopts two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom, only affecting Aegon UK. The changes involve the aggregation level at which the liability adequacy test is carried out and the definition of when a substantially modified contract will be derecognized.

**Level of aggregation**

The previous accounting policy for the level of aggregation for the liability adequacy test in the United Kingdom was on a geographical basis, therefore the total Aegon UK book was considered as one population. After the announced restructuring, Aegon's business in the United Kingdom has been split into different portfolios that are managed independently from one another. Management is of the opinion that the liability adequacy test should be disaggregated to a portfolio level to reflect this change in strategy. This change in the definition of portfolio for Aegon UK will better align with other reporting units in the Group where insurance contracts are grouped consistent with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Details for the liability adequacy test are included in note 2.19 Insurance contracts.

**Substantial modification**

The previous accounting policy for Aegon's business in the United Kingdom is to derecognize insurance contracts when legal extinguishment occurs. As the annuity business, the traditional pension book and the new digital solutions platform will be managed separately post-restructuring, Aegon has decided to change its accounting policy for Aegon UK to one that applies criteria from IAS 39 contract modification. Under these criteria a change 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. Details for the recognition and derecognition of insurance contracts are included in note 2.19 Insurance contracts.

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Details of the impact of the adjustments on previous periods of the financial statements are provided in the following tables, including references to the principle notes that are impacted by changes in accounting policies. Notes that are impacted other than those referenced in the restatement tables provided include note 4, 5, 46 and 52. Furthermore, the Company financial statements of Aegon N.V. have been adjusted to reflect lower income from subsidiaries and the knock-on impact on equity as well as the financial statement schedules included in Other financial information.

	2015 (as previously reported) <sup>1)</sup>	Change in accounting policy		2014 (as previously reported) <sup>1)</sup>	2015 (re-stated) reported) <sup>1)</sup>	Change in accounting policy		2013 (as 2014 previously reported) <sup>1)</sup>	Change in accounting policy		2013 (restated)		
		Deferred cost of reinsurance	Insurance accounting in UK			Deferred cost of reinsurance	Insurance accounting in UK		Deferred cost of reinsurance	Insurance accounting in UK			
<b>Impact of changes in accounting policies on the consolidated income statement</b>	<b>Note</b>												
Premium income	6	20,311	-	2,614	22,925	19,864	-	-	19,864	19,939	-	-	19,939
Policy holder claims and benefits	12	(23,830)	-	(2,614)	(26,443)	(36,214)	-	-	(36,214)	(37,688)	-	-	(37,688)
Commissions and expenses	14	(6,485)	36	(150)	(6,598)	(5,656)	27	-	(5,629)	(5,656)	47	-	(5,609)
Impairment charges / (reversals)	15	22	-	(1,274)	(1,251)	(87)	-	-	(87)	(294)	-	-	(294)
Income tax (expense) / benefit	18	(162)	(26)	270	83	(132)	(18)	-	(151)	(200)	(32)	-	(233)
<b>Impact on net income</b>			<b>10</b>	<b>(1,153)</b>			<b>9</b>	<b>-</b>			<b>15</b>	<b>-</b>	
<b>Earnings per share (EUR per share)</b>	<b>19</b>												
Basic earnings per common share		0.27	-	(0.54)	(0.27)	0.29	-	-	0.29	0.36	0.01	0.01	0.37
Basic earnings per common share B		0.01	-	(0.01)	(0.01)	0.01	-	-	0.01	0.01	-	-	0.01
Diluted earnings per common share		0.27	-	(0.54)	(0.27)	0.29	-	-	0.29	0.36	0.01	0.01	0.37
Diluted earnings per common share B		0.01	-	(0.01)	(0.01)	0.01	-	-	0.01	0.01	-	-	0.01
<b>Earnings per common share calculation</b>	<b>19</b>												

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Net income / (loss) attributable to equity holders	711	10	(1,153)	(432)	756	9	-	765	986	15	-	1,001
Dividends on preferred shares	-	-	-	-	-	-	-	-	(83)	-	-	(83)
Coupons on perpetual securities	(111)	-	-	(111)	(128)	-	-	(128)	(146)	-	-	(146)
Coupons on non-cumulative subordinated notes	(28)	-	-	(28)	(24)	-	-	(24)	(21)	-	-	(21)
Net income / (loss) attributable to equity holders for basic earnings per share calculation	572	10	(1,153)	(571)	605	9	-	613	736	15	-	751
Weighted average number of common shares outstanding (in million)	2,101	-	-	2,101	2,094	-	-	2,094	2,035	-	-	2,035
Weighted average number of common shares B outstanding (in million)	584	-	-	584	580	-	-	580	366	-	-	366

<sup>1</sup> As reported in Aegon's Annual Report on Form 20-F dated March 25, 2016.

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	Decem- ber 31, 2015 (as previously reported) <sup>1)</sup>	Change in accounting policy		<b>Decem- ber 31, 2015 (re- stated)</b>	Decem- ber 31, 2014 (as previously reported) <sup>1)</sup>	Change in accounting policy		Decem- ber 31, 2014 (restated)	January 1, 2014 (as previously reported) <sup>1)</sup>	Change in accounting policy		January 1, 2014 (restated)	
		Defer- red cost of reinsur- ance	Insur- ance account- ing in UK			Defer- red cost of reinsur- ance	Insur- ance account- ing in UK			Defer- red cost of reinsur- ance	Insur- ance account- ing in UK		
<b>Impact of changes in accounting policies on the consolidated statement of comprehensive income</b>													
<b>Net income</b>				<b>Note</b>									
Items that may be reclassified to profit or loss:													
Movement in foreign currency translation and net foreign investment hedging reserves	<b>32.6</b>	1,414	(12)	18	1,419	1,668	(14)	-	1,654	(727)	5	-	(722)
<b>Net effect</b>													
<b>comprehensive income</b>		<b>326</b>	<b>(2)</b>	<b>(1,135)</b>	<b>(811)</b>	<b>6,832</b>	<b>(5)</b>	<b>-</b>	<b>6,827</b>	<b>(2,409)</b>	<b>19</b>	<b>-</b>	<b>(2,390)</b>
Total comprehensive income attributable to:													
Equity holders of Aegon N.V.		326	(2)	(1,135)	(811)	6,833	(5)	-	6,828	(2,406)	19	-	(2,387)
Non-controlling interests		-	-	-	-	(1)	-	-	(1)	(3)	-	-	(3)

<sup>1)</sup> As reported in Aegon's Annual Report on Form 20-F dated March 25, 2016.

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**Impact of changes in accounting policies on the consolidated statement of financial position**

**Assets**

Intangible assets  
Deferred expenses

**Equity and liabilities**

Shareholders equity

Insurance contracts

Investment contracts

Deferred tax liabilities

**Note**

	December 31, 2015 (as previously reported) <sup>1)</sup>	Change in accounting policy		December 31, 2015 (restated)	December 31, 2014 (as previously reported) <sup>1)</sup>	Change in accounting policy		December 31, 2014 (restated)	January 1, 2014 (as previously reported) <sup>1)</sup>	Change in accounting policy		January 1, 2014 (restated)
		Defer- red cost of reinsur- ance	Insur- ance account- ing in UK			Defer- red cost of reinsur- ance	Insur- ance account- ing in UK			Defer- red cost of reinsur- ance	Insur- ance account- ing in UK	
Intangible assets	2,110	-	(210)	1,901	2,073	-	-	2,073	2,272	-	-	2,272
Deferred expenses	12,547	(358)	(1,192)	10,997	10,373	(355)	-	10,019	10,006	(337)	-	9,668
Shareholders equity	23,688	(112)	(1,135)	22,441	23,957	(110)	-	23,847	17,694	(105)	-	17,589
Insurance contracts	123,042	-	-	123,042	111,927	-	-	111,927	101,769	-	-	101,769
Investment contracts	17,718	-	-	17,718	15,359	-	-	15,359	14,545	-	-	14,545
Deferred tax liabilities	2,765	(247)	(266)	2,252	3,151	(245)	-	2,906	1,657	(233)	-	1,425

<sup>1)</sup> As reported in Aegon's Annual Report on Form 20-F dated March 25, 2016.

	December 31, 2015 (as previously reported) <sup>1)</sup>	Change in accounting policy		December 31, 2015 (restated)	December 31, 2014 (as previously reported) <sup>1)</sup>	Change in accounting policy		December 31, 2014 (restated)	December 31, 2013 (as previously reported) <sup>1)</sup>	Change in accounting policy		December 31, 2013 (restated)
		Defer- red cost of reinsur- ance	Insur- ance account- ing in UK			Defer- red cost of reinsur- ance	Insur- ance account- ing in UK			Defer- red cost of reinsur- ance	Insur- ance account- ing in UK	



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		UK				in UK				in UK			
<b>Impact of changes in accounting policies on the statement of changes in equity</b>													
	<b>Note</b>												
Share capital	<b>32.1</b>	8,387	-	-	8,387	8,597	-	-	8,597	8,701	-	-	8,701
Retained earnings	<b>32</b>	9,075	(91)	(1,153)	7,832	8,740	(101)	-	8,639	8,455	(110)	-	8,345
Revaluation reserves	<b>32.4</b>	6,471	-	-	6,471	8,308	-	-	8,308	3,023	-	-	3,023
Remeasurement of defined benefit plans	<b>32.5</b>	(1,532)	-	-	(1,532)	(1,611)	-	-	(1,611)	(706)	-	-	(706)
Other reserves	<b>32.6</b>	1,286	(21)	18	1,283	(77)	(9)	-	(86)	(1,778)	5	-	(1,773)
<b>Shareholders' equity</b>		<b>23,688</b>	<b>(112)</b>	<b>(1,135)</b>	<b>22,441</b>	<b>23,957</b>	<b>(110)</b>	<b>-</b>	<b>23,847</b>	<b>17,694</b>	<b>(105)</b>	<b>-</b>	<b>17,589</b>

<sup>1</sup> As reported in Aegon's Annual Report on Form 20-F dated March 25, 2016.

The voluntary changes in accounting policies have had no impact on the cash flows as presented in the cash flow statement.

### 2.1.3 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.

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**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.

**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.



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### **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.

#### **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

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- remove the asset manager); and
- ⌚ Rights held by other parties (e.g. voting rights of policyholders that are substantive or not).

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Exposure or rights to variability of returns can be the result of, for example:

- ⌚ General account investment of Aegon;
- ⌚ Aegon's investments held for policyholder;
- ⌚ Guarantees provided by Aegon on return of policyholders in specific investment vehicles;
- ⌚ Fees dependent on fund value (including, but not limited to, asset management fees); and
- ⌚ Fees dependent on performance of the fund (including, but not limited to, performance fees).

Investment funds where Aegon acts as an agent are not consolidated due to lack of control of the funds. In particular, for some separate accounts, the independent board of directors has substantive rights and therefore Aegon does not have power over these separate accounts but acts as an agent.

For limited partnerships, the assessment takes into account Aegon's legal position (i.e. limited partner or general partner) and any substantive removal rights held by other parties. Professional judgment is applied concerning the substantiveness of the removal rights and the magnitude of the exposure to variable returns, leading to the conclusion that Aegon controls some, but not all, of the limited partnerships in which it participates.

Upon consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. The liability is presented in the consolidated financial statements as investment contracts for account of policyholders. Where no repurchase obligation exists, the participations held by third parties are presented as non-controlling interests in equity. The assets allocated to participations held by third parties or by the Group on behalf of policyholders are presented in the consolidated financial statements as investments for account of policyholders.

Equity instruments issued by the Group that are held by investment funds are eliminated on consolidation. However, the elimination is reflected in equity and not in the measurement of the related financial liabilities towards policyholders or other third parties.

**Structured entities**

A structured entity is defined in IFRS 12 as "An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In these instances the tests and indicators to assess control provided by IFRS 10 have more focus on the purpose and design of the investee (with relation to the relevant activities that most significantly affect the structured entity) and the exposure to variable returns, which for structured entities lies in interests through e.g. derivatives, and will not be focused on entities that are controlled by voting rights."

Structured entities that are consolidated include certain mortgage backed securitization deals, where Aegon was involved in the design of the structured entities and also has the ability to use its power to affect the amount of the investee's returns. Other factors that contribute to the conclusion that consolidation of these entities is required includes consideration of whether Aegon fully services the investees and can therefore influence the defaults of the mortgage portfolios and the fact that in these cases the majority of risks are maintained by Aegon.

Structured entities that are not consolidated include general account investments in non-affiliated structured entities that are used for investment purposes.

**Non-current assets held for sale and disposal groups**

Disposal groups are classified as held for sale if they are available for immediate sale in their present condition, subject only to the customary sales terms of such assets and disposal groups and their sale is considered highly probable. Management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to their fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognized through a reduction of the carrying value of any goodwill related to the disposal group or the carrying value of certain other non-current, non-financial assets to the extent that the carrying value of those assets exceeds their fair value. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognized upon classification as held for sale, but is recognized as part of the result on disposal if and when a divestment transaction occurs.

Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.



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### **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**

Based on the amended strategic plans as announced on January 13, 2016, Aegon has reconsidered its segment reporting. Previously, Aegon had the following reportable segments: Americas, The Netherlands, United Kingdom, New Markets and Holdings and other activities. New Markets was established to aggregate Aegon's emerging businesses and global / European initiatives which was 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 has changed its managerial view to geographical areas and underlying businesses have developed since 2010, internal management reports have changed as of 2016 accordingly. Alignment of segment reporting with those changes and developments are in place as of 2016 reflecting Aegon's announcements related to its strategic plan. This means that the operating segments are 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.



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This segment reporting is based on the businesses as presented in internal reports that are regularly reviewed by the Executive Board which is regarded as the chief operating decision maker. For Europe, the underlying businesses (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 consolidated statement of financial position, the consolidated income statement and results of operations or the consolidated cash flow statement of Aegon N.V.

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Aegon's segment information is prepared by consolidating on a proportionate basis Aegon's joint ventures and associated companies.

The following tables show the reconciliation between former and new segment reporting, first showing the impact of the segment change and second showing the new segments taking into account the voluntary change in accounting policies as described in note 2.1.2.

2015:

The following table shows the segments as previously reported excluding voluntary accounting changes:

	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
<b>Income statement -Underlying earnings</b>									
<b>2015</b>									
<b>Underlying earnings before tax</b>	1,200	537	125	236	(163)	2	<b>1,939</b>	34	<b>1,973</b>
Fair value items	(589)	175	(27)	8	(68)	-	(500)	(59)	(559)
Realized gains / (losses) on investments	(74)	306	95	20	-	-	346	(8)	338
Impairment charges	(43)	(25)	-	(2)	-	-	(70)	(21)	(91)
Impairment reversals	114	5	-	-	-	-	119	-	119
Other income / (charges)	(938)	(22)	27	(47)	-	-	(980)	21	(959)
Run-off businesses	52	-	-	-	-	-	52	-	52
Income / (loss) before tax	(277)	977	220	215	(230)	2	906	(33)	874
Income tax (expense) / benefit	31	(223)	(2)	(71)	71	-	(194)	33	(162)
<b>Net income / (loss)</b>	<b>(246)</b>	<b>753</b>	<b>218</b>	<b>144</b>	<b>(159)</b>	<b>2</b>	<b>712</b>	<b>-</b>	<b>712</b>
<i>Inter-segment underlying earnings</i>	(220)	(55)	(75)	339	10				
<b>Revenues</b>									
<b>2015</b>									
Life insurance gross premiums	7,046	2,240	5,650	2,565	4	(106)	17,400	(431)	16,969
Accident and health insurance	2,266	234	47	170	6	(6)	2,717	(14)	2,703
General insurance	-	473	-	244	2	-	720	(80)	640
<b>Total gross premiums</b>	<b>9,312</b>	<b>2,947</b>	<b>5,697</b>	<b>2,979</b>	<b>13</b>	<b>(112)</b>	<b>20,836</b>	<b>(524)</b>	<b>20,311</b>
Investment income	3,680	2,277	2,327	291	387	(385)	8,576	(51)	8,525
Fee and commission income	1,704	351	43	813	-	(278)	2,633	(195)	2,438
Other revenues	9	-	-	2	7	-	19	(5)	14
<b>Total revenues</b>	<b>14,705</b>	<b>5,575</b>	<b>8,067</b>	<b>4,086</b>	<b>406</b>	<b>(776)</b>	<b>32,064</b>	<b>(775)</b>	<b>31,289</b>
<i>Inter-segment revenues</i>	24	2	-	356	393				

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The following table shows the segments as reported after the voluntary change in segment reporting:

<b>Income statement -</b>												
	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
<b>Underlying earnings 2015</b>												
<b>Underlying earnings before tax</b>	1,200	537	122	37	12	20	170	(163)	2	<b>1,939</b>	34	<b>1,973</b>
Fair value items	(589)	175	(25)	-	-	7	-	(68)	-	(500)	(59)	(559)
Realized gains / (losses) on investments	(74)	306	103	2	-	7	3	-	-	346	(8)	338
Impairment charges	(43)	(25)	-	(2)	-	-	-	-	-	(70)	(21)	(91)
Impairment reversals	114	5	-	-	-	-	-	-	-	119	-	119
Other income / (charges)	(938)	(22)	27	(2)	17	(61)	(1)	-	-	(980)	21	(959)
Run-off businesses	52	-	-	-	-	-	-	-	-	52	-	52
Income / (loss) before tax	(277)	977	227	35	29	(27)	172	(230)	2	<b>906</b>	(33)	<b>874</b>
Income tax (expense) / benefit	31	(223)	(2)	(11)	(7)	(3)	(50)	71	-	(194)	33	(162)
<b>Net income / (loss)</b>	<b>(246)</b>	<b>753</b>	<b>225</b>	<b>24</b>	<b>22</b>	<b>(30)</b>	<b>121</b>	<b>(159)</b>	<b>2</b>	<b>712</b>	<b>-</b>	<b>712</b>
<i>Inter-segment underlying earnings</i>	(220)	(55)	(63)	(14)	-	77	264	10				
<b>Revenues</b>												
<b>2015</b>	7,046	2,240	5,851	477	174	1,713	-	4	(106)	17,400	(431)	16,969

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Life insurance gross premiums												
Accident and health insurance	2,266	234	47	1	64	105	-	6	(6)	2,717	(14)	2,703
General insurance	-	473	-	164	80	-	-	2	-	720	(80)	640
<b>Total gross premiums</b>	<b>9,312</b>	<b>2,947</b>	<b>5,898</b>	<b>642</b>	<b>317</b>	<b>1,819</b>	<b>-</b>	<b>13</b>	<b>(112)</b>	<b>20,836</b>	<b>(524)</b>	<b>20,311</b>
Investment income	3,680	2,277	2,331	45	41	194	7	392	(391)	8,576	(51)	8,525
Fee and commission income	1,704	351	98	39	13	62	650	-	(284)	2,633	(195)	2,438
Other revenues	9	-	-	-	2	-	-	7	-	19	(5)	14
<b>Total revenues</b>	<b>14,705</b>	<b>5,575</b>	<b>8,327</b>	<b>726</b>	<b>373</b>	<b>2,076</b>	<b>657</b>	<b>412</b>	<b>(787)</b>	<b>32,064</b>	<b>(775)</b>	<b>31,289</b>
<i>Inter-segment revenues</i>	24	2	-	-	-	101	261	399				

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The following table shows the impact of the voluntary changes in accounting policies as presented in note 2.1.2 and the impact on the new segments:

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

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Accident and health insurance	-	-	-	-	-	-	-	-	-	-	-
General insurance	-	-	-	-	-	-	-	-	-	-	-
<b>Total gross premiums</b>	-	-	<b>2,614</b>	-	-	-	-	-	<b>2,614</b>	-	<b>2,614</b>
Investment income	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	-	-	<b>2,614</b>	-	-	-	-	-	<b>2,614</b>	-	<b>2,614</b>
<i>Inter-segment revenues</i>	-	-	-	-	-	-	-	-	-	-	-

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The following table shows the new segment figures taking into account the voluntary accounting changes (note 2.1.2):

<b>Income statement -</b>	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
<b>Underlying earnings 2015</b>												
<b>Underlying earnings before tax</b>	1,200	537	(27)	37	12	20	170	(163)	2	<b>1,789</b>	34	<b>1,824</b>
Fair value items	(589)	175	(25)	-	-	7	-	(68)	-	(500)	(59)	(559)
Realized gains / (losses) on investments	(74)	306	103	2	-	7	3	-	-	346	(8)	338
Impairment charges	(43)	(25)	-	(2)	-	-	-	-	-	(70)	(21)	(91)
Impairment reversals	114	5	-	-	-	-	-	-	-	119	-	119
Other income / (charges)	(938)	(22)	(1,247)	(2)	17	(61)	(1)	-	-	(2,254)	21	(2,233)
Run-off businesses	88	-	-	-	-	-	-	-	-	88	-	88
<b>Income / (loss) before tax</b>	<b>(241)</b>	<b>977</b>	<b>(1,196)</b>	<b>35</b>	<b>29</b>	<b>(27)</b>	<b>172</b>	<b>(230)</b>	<b>2</b>	<b>(481)</b>	<b>(33)</b>	<b>(514)</b>
Income tax (expense) / benefit	6	(223)	268	(11)	(7)	(3)	(50)	71	-	51	33	83
<b>Net income / (loss)</b>	<b>(235)</b>	<b>753</b>	<b>(928)</b>	<b>24</b>	<b>22</b>	<b>(30)</b>	<b>121</b>	<b>(159)</b>	<b>2</b>	<b>(431)</b>	<b>-</b>	<b>(431)</b>
<i>Inter-segment underlying earnings</i>	(220)	(55)	(63)	(14)	-	77	264	10				
<b>Revenues</b>												
<b>2015</b>												

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Life insurance gross premiums	7,046	2,240	8,465	477	174	1,713	-	4	(106)	20,013	(431)	19,583
Accident and health insurance	2,266	234	47	1	64	105	-	6	(6)	2,717	(14)	2,703
General insurance	-	473	-	164	80	-	-	2	-	720	(80)	640
<b>Total gross premiums</b>	<b>9,312</b>	<b>2,947</b>	<b>8,512</b>	<b>642</b>	<b>317</b>	<b>1,819</b>	<b>-</b>	<b>13</b>	<b>(112)</b>	<b>23,450</b>	<b>(524)</b>	<b>22,925</b>
Investment income	3,680	2,277	2,331	45	41	194	7	392	(391)	8,576	(51)	8,525
Fee and commission income	1,704	351	98	39	13	62	650	-	(284)	2,633	(195)	2,438
Other revenues	9	-	-	-	2	-	-	7	-	19	(5)	14
<b>Total revenues</b>	<b>14,705</b>	<b>5,575</b>	<b>10,941</b>	<b>726</b>	<b>373</b>	<b>2,076</b>	<b>657</b>	<b>412</b>	<b>(787)</b>	<b>34,677</b>	<b>(775)</b>	<b>33,902</b>
<i>Inter-segment revenues</i>	24	2	-	-	-	101	261	399				

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2014:

The following table shows the segments as previously reported excluding voluntary accounting changes:

<b>Income statement -</b>									
<b>Underlying earnings</b>	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment total	Joint ventures and associates	Consolidated
<b>2014</b>							eliminations		
<b>Underlying earnings before tax</b>	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)
<b>Income / (loss) before tax</b>	<b>669</b>	<b>99</b>	<b>215</b>	<b>139</b>	<b>(223)</b>	<b>1</b>	<b>900</b>	<b>(10)</b>	<b>889</b>
Income tax (expense) / benefit	(79)	(37)	(37)	(50)	60	-	(143)	10	(132)
<b>Net income / (loss)</b>	<b>590</b>	<b>62</b>	<b>178</b>	<b>89</b>	<b>(164)</b>	<b>1</b>	<b>757</b>	<b>-</b>	<b>757</b>
<i>Inter-segment underlying earnings</i>	(173)	(58)	(59)	272	18				

**Revenues**

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Life insurance gross premiums	6,461	3,982	4,859	2,015	-	(70)	17,246	(351)	16,896
Accident and health insurance	1,874	233	56	163	6	(6)	2,326	(11)	2,316
General insurance	-	501	-	224	-	-	725	(72)	653
<b>Total gross premiums</b>	<b>8,334</b>	<b>4,716</b>	<b>4,916</b>	<b>2,402</b>	<b>6</b>	<b>(76)</b>	<b>20,298</b>	<b>(433)</b>	<b>19,864</b>
Investment income	3,312	2,568	2,073	234	326	(323)	8,191	(42)	8,148
Fee and commission income	1,485	324	43	623	-	(237)	2,237	(100)	2,137
Other revenues	2	-	-	3	5	-	10	(3)	7
<b>Total revenues</b>	<b>13,134</b>	<b>7,608</b>	<b>7,032</b>	<b>3,262</b>	<b>336</b>	<b>(637)</b>	<b>30,735</b>	<b>(578)</b>	<b>30,157</b>
<i>Inter-segment revenues</i>	16	-	-	292	327				

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The following table below shows the segments as reported after the voluntary change in segment reporting:

<b>Income statement -</b>		The	Central &	Spain			Asset	Holding	Elimina-	Segment	Joint	Consoli-
<b>Underlying earnings</b>	Americas	Nether-	United	Eastern	&	Asia	Manage-	and	tions	total	ventures and	dated
<b>2014</b>		lands	Kingdom	Europe	Portugal		ment	other		eliminations	associates	
<b>Underlying earnings before tax</b>	1,134	558	125	60	28	(17)	115	(139)	1	1,865	(9)	1,856
Fair value items	(497)	(766)	(31)	8	-	3	-	(82)	-	(1,366)	2	(1,364)
Realized gains / (losses) on investments	85	431	164	9	2	5	1	-	-	697	(3)	694
Impairment charges	(38)	(19)	-	(42)	-	(1)	-	-	-	(100)	(23)	(123)
Impairment reversals	58	7	-	-	-	-	-	-	-	66	-	66
Other income / (charges)	(52)	(113)	(49)	(26)	(1)	4	(1)	(3)	-	(240)	22	(218)
Run-off businesses	(21)	-	-	-	-	-	-	-	-	(21)	-	(21)
<b>Income / (loss) before tax</b>	<b>669</b>	<b>99</b>	<b>209</b>	<b>9</b>	<b>28</b>	<b>(7)</b>	<b>115</b>	<b>(223)</b>	<b>1</b>	<b>900</b>	<b>(10)</b>	<b>889</b>
Income tax (expense) /benefit	(79)	(37)	(36)	-	(7)	(9)	(36)	60	-	(143)	10	(132)
<b>Net income / (loss)</b>	<b>590</b>	<b>62</b>	<b>174</b>	<b>9</b>	<b>22</b>	<b>(16)</b>	<b>79</b>	<b>(164)</b>	<b>1</b>	<b>757</b>	<b>-</b>	<b>757</b>
<i>Inter-segment underlying earnings</i>	(173)	(58)	(55)	(17)	-	55	229	18				
<b>Revenues</b>												
<b>2014</b>	6,461	3,982	5,056	524	196	1,097	-	-	(70)	17,246	(351)	16,896

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Life insurance gross premiums

Accident and health insurance	1,874	233	56	1	60	102	-	6	(6)	2,326	(11)	2,316
General insurance	-	501	-	152	72	-	-	-	-	725	(72)	653
<b>Total gross premiums</b>	<b>8,334</b>	<b>4,716</b>	<b>5,113</b>	<b>678</b>	<b>328</b>	<b>1,199</b>	<b>-</b>	<b>6</b>	<b>(76)</b>	<b>20,298</b>	<b>(433)</b>	<b>19,864</b>
Investment income	3,312	2,568	2,077	54	49	124	4	332	(329)	8,191	(42)	8,148
Fee and commission income	1,485	324	94	41	8	53	475	-	(243)	2,237	(100)	2,137
Other revenues	2	-	-	-	2	-	-	5	-	10	(3)	7
<b>Total revenues</b>	<b>13,134</b>	<b>7,608</b>	<b>7,284</b>	<b>773</b>	<b>387</b>	<b>1,376</b>	<b>479</b>	<b>342</b>	<b>(648)</b>	<b>30,735</b>	<b>(578)</b>	<b>30,157</b>

*Inter-segment revenues* 16 - - - - 70 228 333

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The following table shows the impact of the voluntary changes in accounting policies as presented in note 2.1.2 and the impact on the new segments:

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

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Accident and health insurance

General insurance	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total gross premiums</b>	-	-	-	-	-	-	-	-	-	-	-	-

Investment income	-	-	-	-	-	-	-	-	-	-	-	-
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Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-
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Other revenues	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	-	-	-	-	-	-	-	-	-	-	-	-

<i>Inter-segment revenues</i>	-	-	-	-	-	-	-	-	-	-	-	-
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The following table shows the new segment figures taking into account the voluntary accounting changes (note 2.1.2):

<b>Income statement -</b>												
<b>Underlying earnings 2014</b>	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
<b>Underlying earnings before tax</b>	1,134	558	125	60	28	(17)	115	(139)	1	1,865	(9)	1,856
Fair value items	(497)	(766)	(31)	8	-	3	-	(82)	-	(1,366)	2	(1,364)
Realized gains / (losses) on investments	85	431	164	9	2	5	1	-	-	697	(3)	694
Impairment charges	(38)	(19)	-	(42)	-	(1)	-	-	-	(100)	(23)	(123)
Impairment reversals	58	7	-	-	-	-	-	-	-	66	-	66
Other income / (charges)	(52)	(113)	(49)	(26)	(1)	4	(1)	(3)	-	(240)	22	(218)
Run-off businesses	6	-	-	-	-	-	-	-	-	6	-	6
<b>Income / (loss) before tax</b>	<b>696</b>	<b>99</b>	<b>209</b>	<b>9</b>	<b>28</b>	<b>(7)</b>	<b>115</b>	<b>(223)</b>	<b>1</b>	<b>927</b>	<b>(10)</b>	<b>916</b>
Income tax (expense) / benefit	(97)	(37)	(35)	-	(7)	(9)	(36)	60	-	(161)	10	(151)
<b>Net income / (loss)</b>	<b>599</b>	<b>62</b>	<b>173</b>	<b>9</b>	<b>22</b>	<b>(16)</b>	<b>79</b>	<b>(164)</b>	<b>1</b>	<b>766</b>	<b>-</b>	<b>766</b>
<i>Inter-segment underlying earnings</i>	(173)	(58)	(54)	(17)	-	55	229	18				
<b>Revenues</b>												
<b>2014</b>	6,461	3,982	5,057	524	196	1,097	-	-	(70)	17,246	(351)	16,896

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Life insurance gross premiums

Accident and health insurance	1,874	233	56	1	60	102	-	6	(6)	2,326	(11)	2,316
General insurance	-	501	-	152	72	-	-	-	-	725	(72)	653
<b>Total gross premiums</b>	<b>8,334</b>	<b>4,716</b>	<b>5,113</b>	<b>678</b>	<b>328</b>	<b>1,199</b>	<b>-</b>	<b>6</b>	<b>(76)</b>	<b>20,298</b>	<b>(433)</b>	<b>19,864</b>
Investment income	3,312	2,568	2,077	54	49	124	4	332	(329)	8,191	(42)	8,148
Fee and commission income	1,485	324	94	41	8	53	475	-	(243)	2,237	(100)	2,137
Other revenues	2	-	-	-	2	-	-	5	-	10	(3)	7
<b>Total revenues</b>	<b>13,134</b>	<b>7,608</b>	<b>7,284</b>	<b>773</b>	<b>387</b>	<b>1,376</b>	<b>479</b>	<b>342</b>	<b>(648)</b>	<b>30,735</b>	<b>(578)</b>	<b>30,157</b>
<i>Inter-segment revenues</i>	16	-	-	-	-	70	228	333				

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2013:

The following table shows the segments as previously reported excluding voluntary accounting changes:

	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment	Joint ventures and associates	Consolidated
<b>Income statement - Underlying earnings 2013</b>							Segment	Joint ventures and associates	Consolidated
							total	eliminations	
<b>Underlying earnings before tax</b>	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
<b>Income / (loss) before tax</b>	<b>493</b>	<b>687</b>	<b>43</b>	<b>158</b>	<b>(181)</b>	<b>(3)</b>	<b>1,197</b>	<b>(8)</b>	<b>1,189</b>
Income tax (expense) / benefit	(86)	(166)	33	(31)	42	-	(208)	8	(200)
<b>Net income / (loss)</b>	<b>407</b>	<b>521</b>	<b>76</b>	<b>127</b>	<b>(139)</b>	<b>(3)</b>	<b>989</b>	<b>-</b>	<b>989</b>
<i>Inter-segment underlying earnings</i>	(173)	(54)	(59)	257	29				

**Revenues**

2013

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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
<b>Total gross premiums</b>	<b>7,975</b>	<b>4,245</b>	<b>6,537</b>	<b>1,713</b>	<b>22</b>	<b>(82)</b>	<b>20,410</b>	<b>(471)</b>	<b>19,939</b>
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
<b>Total revenues</b>	<b>12,622</b>	<b>6,883</b>	<b>8,670</b>	<b>2,531</b>	<b>362</b>	<b>(656)</b>	<b>30,413</b>	<b>(608)</b>	<b>29,805</b>
<i>Inter-segment revenues</i>	20	1	1	292	342				

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The following table below shows the segments as reported after the voluntary change in segment reporting:

<b>Income statement - Underlying earnings 2013</b>	Americas	The Nether- lands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Manage- ment	Holding and other activities	Elimina- tions	Segment total	Joint ventures and associates eliminations	Consoli- dated
<b>Underlying earnings before tax</b>	1,314	454	94	57	33	34	95	(109)	(3)	1,968	(50)	1,918
Fair value items	(980)	(41)	(21)	1	-	(16)	-	(61)	-	(1,118)	37	(1,082)
Realized gains / (losses) on investments	110	342	48	1	1	-	(2)	-	-	500	-	500
Impairment charges	(111)	(40)	(31)	(17)	-	1	-	-	-	(198)	-	(198)
Impairment reversals	67	8	-	-	-	-	-	-	-	75	-	75
Other income / (charges)	72	(36)	(46)	(210)	174	(8)	12	(11)	-	(52)	6	(47)
Run-off businesses	21	-	-	-	-	-	-	-	-	21	-	21
<b>Income / (loss) before tax</b>	<b>493</b>	<b>687</b>	<b>44</b>	<b>(168)</b>	<b>209</b>	<b>11</b>	<b>105</b>	<b>(181)</b>	<b>(3)</b>	<b>1,197</b>	<b>(8)</b>	<b>1,189</b>
Income tax (expense) /benefit	(86)	(166)	33	24	(5)	(18)	(32)	42	-	(208)	8	(200)
<b>Net income / (loss)</b>	<b>407</b>	<b>521</b>	<b>77</b>	<b>(144)</b>	<b>203</b>	<b>(7)</b>	<b>73</b>	<b>(139)</b>	<b>(3)</b>	<b>989</b>	<b>-</b>	<b>989</b>
<i>Inter-segment underlying earnings</i>	(173)	(54)	(54)	(23)	-	54	221	29				
<b>Revenues 2013</b>	6,187	3,515	6,537	517	223	609	-	14	(73)	17,529	(416)	17,112

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Life insurance gross premiums

Accident and health insurance	1,787	243	-	1	62	107	-	8	(8)	2,200	(10)	2,190
General insurance	-	487	-	150	44	-	-	-	-	681	(44)	637
<b>Total gross premiums</b>	<b>7,975</b>	<b>4,245</b>	<b>6,537</b>	<b>668</b>	<b>329</b>	<b>717</b>	<b>-</b>	<b>22</b>	<b>(82)</b>	<b>20,410</b>	<b>(471)</b>	<b>19,939</b>
Investment income	3,370	2,310	2,057	57	68	101	4	342	(342)	7,968	(58)	7,909
Fee and commission income	1,273	328	129	49	9	49	432	-	(244)	2,026	(76)	1,950
Other revenues	4	-	(1)	-	2	-	-	4	-	10	(3)	6
<b>Total revenues</b>	<b>12,622</b>	<b>6,883</b>	<b>8,722</b>	<b>774</b>	<b>408</b>	<b>867</b>	<b>437</b>	<b>368</b>	<b>(668)</b>	<b>30,413</b>	<b>(608)</b>	<b>29,805</b>

*Inter-segment revenues*

	20	1	1	-	-	72	226	348
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The following table shows the impact of the voluntary changes in accounting policies as presented in note 2.1.2 and the impact on the new segments:

	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management activities	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
<b>Income statement - Underlying earnings 2013</b>												
<b>Underlying earnings before tax</b>	-	-	-	-	-	-	-	-	-	-	-	-
Fair value items	-	-	-	-	-	-	-	-	-	-	-	-
Realized gains / (losses) on investments	-	-	-	-	-	-	-	-	-	-	-	-
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	-	-	-	-	-	-	-	-
Other income / (charges)	-	-	-	-	-	-	-	-	-	-	-	-
Run-off businesses	47	-	-	-	-	-	-	-	-	47	-	47
<b>Income / (loss) before tax</b>	<b>47</b>	-	-	-	-	-	-	-	-	<b>47</b>	-	<b>47</b>
Income tax (expense) /benefit	(32)	-	-	-	-	-	-	-	-	(32)	-	(32)
<b>Net income / (loss)</b>	<b>15</b>	-	-	-	-	-	-	-	-	<b>15</b>	-	<b>15</b>
<i>Inter-segment underlying earnings</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Revenues</b>												
<b>2013</b>												
Life insurance gross premiums	-	-	-	-	-	-	-	-	-	-	-	-

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Accident and health insurance	-	-	-	-	-	-	-	-	-	-	-	-
General insurance	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total gross premiums</b>	-	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Inter-segment revenues</i>	-	-	-	-	-	-	-	-	-	-	-	-

**Table of Contents**156 Notes to the consolidated financial statements **Note 2**

The following table shows the new segment figures taking into account the voluntary accounting changes (note 2.1.2):

	Americas	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Management	Holding and other activities	Eliminations	Segment total	Joint ventures and associates eliminations	Consolidated
<b>Income statement - Underlying earnings 2013</b>												
<b>Underlying earnings before tax</b>	1,314	454	94	57	33	34	95	(109)	(3)	1,968	(50)	1,918
Fair value items	(980)	(41)	(21)	1	-	(16)	-	(61)	-	(1,118)	37	(1,082)
Realized gains / (losses) on investments	110	342	48	1	1	-	(2)	-	-	500	-	500
Impairment charges	(111)	(40)	(31)	(17)	-	1	-	-	-	(198)	-	(198)
Impairment reversals	67	8	-	-	-	-	-	-	-	75	-	75
Other income / (charges)	72	(36)	(46)	(210)	174	(8)	12	(11)	-	(52)	6	(47)
Run-off businesses	68	-	-	-	-	-	-	-	-	68	-	68
<b>Income / (loss) before tax</b>	<b>540</b>	<b>687</b>	<b>44</b>	<b>(168)</b>	<b>209</b>	<b>11</b>	<b>105</b>	<b>(181)</b>	<b>(3)</b>	<b>1,244</b>	<b>(8)</b>	<b>1,236</b>
Income tax (expense) /benefit	(119)	(166)	33	24	(5)	(18)	(32)	42	-	(240)	8	(233)
<b>Net income / (loss)</b>	<b>422</b>	<b>521</b>	<b>77</b>	<b>(144)</b>	<b>203</b>	<b>(7)</b>	<b>73</b>	<b>(139)</b>	<b>(3)</b>	<b>1,003</b>	<b>-</b>	<b>1,003</b>
<i>Inter-segment underlying earnings</i>	(173)	(54)	(54)	(23)	-	54	221	29				
<b>Revenues</b>												
<b>2013</b>	6,187	3,515	6,537	517	223	609	-	14	(73)	17,529	(416)	17,112

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Life insurance gross premiums

Accident and health insurance	1,787	243	-	1	62	107	-	8	(8)	2,200	(10)	2,190
General insurance	-	487	-	150	44	-	-	-	-	681	(44)	637
<b>Total gross premiums</b>	<b>7,975</b>	<b>4,245</b>	<b>6,537</b>	<b>668</b>	<b>329</b>	<b>717</b>	<b>-</b>	<b>22</b>	<b>(82)</b>	<b>20,410</b>	<b>(471)</b>	<b>19,939</b>
Investment income	3,370	2,310	2,057	57	68	101	4	342	(342)	7,968	(58)	7,909
Fee and commission income	1,273	328	129	49	9	49	432	-	(244)	2,026	(76)	1,950
Other revenues	4	-	(1)	-	2	-	-	4	-	10	(3)	6
<b>Total revenues</b>	<b>12,622</b>	<b>6,883</b>	<b>8,722</b>	<b>774</b>	<b>408</b>	<b>867</b>	<b>437</b>	<b>368</b>	<b>(668)</b>	<b>30,413</b>	<b>(608)</b>	<b>29,805</b>

*Inter-segment revenues* 20 1 1 - - 72 226 348

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.

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**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.

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.

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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 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.



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**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.

**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.

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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.

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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.

**Net investment hedges**

Net investment hedges are hedges of currency exposures on a net investment in a foreign operation. To the extent that the hedge is effective, the change in the fair value of the hedging instrument is recognized in shareholders' equity. Any ineffectiveness is recognized in the income statement. The amount in shareholders' equity is released to the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a fair value hedge, the derivative continues to be carried on the statement of financial position with changes in its fair value recognized in the income statement. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders' equity is recognized immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders' equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

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**2.10 Investments in joint arrangements**

In general, joint arrangements are contractual agreements whereby the Group undertakes, with other parties, an economic activity that is subject to joint control. Joint control exists when it is contractually agreed to share control over an economic activity. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Aegon has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If joint ventures are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the joint venture and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded in other comprehensive income by the joint venture are reflected in other reserves in shareholders' equity, while the share in the joint ventures net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the joint ventures' equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the joint venture are not eliminated.

On disposal of an interest in a joint venture, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

**2.11 Investments in associates**

Entities over which the Group has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary, are accounted for using the equity method. Interests held by venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by the Group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Interests in associates are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the associate and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded in other comprehensive income by the associate are reflected in other reserves in shareholders' equity, while the share in the associate's net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the associate's equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the associate are not eliminated.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.



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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.

**b. Deferred cost of reinsurance**

A deferred cost of reinsurance is established when Aegon enters into a reinsurance transaction, except for reinsurance transactions that are entered into as part of a plan to exit a business. When Aegon enters into a reinsurance contract as part of a plan to exit a business, an immediate loss is recognized in the income statement. Upon reinsurance, Aegon is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying contracts.

When losses on buying reinsurance are deferred, the amortization is based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

**c. Deferred transaction costs**

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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.

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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.

Impairment losses are charged to shareholders' equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement. Impairment of deferred policy acquisition costs is included in note 15 Impairment charges/ (reversals).

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

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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

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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.

#### **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

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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.

**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.

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Insurance contracts are contracts under which the Group accepts a significant risk other than a financial risk from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled. Within the United States, the Netherlands and the United Kingdom, substantially modified contracts are accounted for as an extinguishment of the original liability and the recognition of a new liability.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by the Group prior to the transition to IFRS and with consideration of standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. In order to reflect the specific nature of the products written, subsidiaries are allowed to apply local accounting principles to the measurement of insurance contracts. All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

### **a. Life insurance contracts**

Life insurance contracts are insurance contracts with life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

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.

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.

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**Guaranteed minimum benefits**

Certain life insurance contracts, issued by the Group, contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives.

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

In the Netherlands, an additional liability is established for guaranteed minimum investment returns on group pension plans with profit sharing and on traditional insurance contracts, with profit sharing based on an external interest index, that are not bifurcated. These guarantees are measured at fair value.

**d. Shadow accounting**

Shadow accounting allows that all gains and losses on investments affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of VOBA or DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized through other comprehensive income in the revaluation reserve, together with the unrealized gain or loss.

Some profit sharing schemes issued by the Group entitle the policyholder to a bonus which is based on the actual total return on specific assets held. To the extent that the bonus relates to gains or losses on available-for-sale investments for which the unrealized gains or losses are recognized in the revaluation reserve in equity, shadow accounting is applied. This means that the increase in the liability is also charged to equity to offset the unrealized gains rather than to the income statement.

**e. Non-life insurance contracts**

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the coverage period of the premium and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities. Discounting of liabilities is generally applied when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

**f. Liability adequacy testing**

At each reporting date, the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of VOBA and DPAC, is assessed using a liability adequacy test.

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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

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contracts that are subject to broadly similar risks and managed together as a single portfolio. Specifically, in the Netherlands the liability adequacy test is performed on a consolidated basis for all life and non-life business, whereas in the Americas and the UK it is performed at the level of the portfolio of contracts. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on management's expectation of the future return on investments. These future returns on investments take into account management's best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity. Aegon the Netherlands, as required locally, adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of the assets that are measured at amortized cost in the 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.

**b. Investment contracts without discretionary participation features**

At inception, investment contracts without discretionary features are carried at amortized cost.

Investment contracts without discretionary participation features are carried at amortized cost based on the expected cash flows and using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the income statement. For these investment contracts deposit accounting is applied, meaning that deposits are not reflected as premium income, but are recognized as part of the financial liability.

The consolidated financial statements provide information on the fair value of all financial liabilities, including those carried at amortized cost. As these contracts are not quoted in active markets, their value is determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. For investment contracts without discretionary participation features that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.





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**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.

**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.

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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.

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.



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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, except for reinsurance transactions that are entered into as part of a plan to exit a business. When Aegon enters into a reinsurance contract as part of a plan to exit a business, an immediate gain is recognized in the income statement. Upon reinsurance, Aegon is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying contracts.

When gains on buying reinsurance are deferred, the amortization is based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

**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.

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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**

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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. Impairment of deferred policy acquisition costs is included in note 15 Impairment charges/ (reversals). Refer to note 15 Impairment charges/ (reversals).

**2.32 Interest charges and related fees**

Interest charges and related fees includes interest expense on trust pass-through securities and other borrowings. Interest expense on trust pass-through securities and other borrowings carried at amortized cost is recognized in profit or loss using the effective interest method.

**2.33 Leases**

Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

**2.34 Events after the 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.

**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.

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Some insurance contracts without a guaranteed or fixed contractual term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets respectively, and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may require write-offs due to unrecoverability.

#### **Actuarial and economic assumptions**

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are prescribed by the local regulator, market observable or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States and some of the smaller countries, is the annual long-term growth rate of the underlying assets. The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

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.

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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 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

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- ⌚ 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.

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The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. Aegon maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and therefore less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or it is determined that adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities, the derivation of fair value is more judgmental. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an at arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the table headed "Effect of changes in significant unobservable assumptions to reasonably possible alternatives" in note 47 Fair Value. While Aegon believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize Aegon's fair value hierarchy, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modeled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

## **4 Financial risks**

### **General**

As an insurance group, Aegon is exposed to a variety of risks. Aegon's largest exposures are to changes in financial markets (e.g. foreign currency, interest rate, credit and equity market risks) that affect the value of the investments, liabilities from products that Aegon sells, deferred expenses and value of business acquired. Other risks include insurance related risks, such as changes in mortality and morbidity, which are discussed in note 36 Insurance contracts. Aegon manages risk at local level where business is transacted, based on principles and policies established at the Group level. Aegon's integrated approach to risk management involves similar measurement of risk and scope of risk coverage to allow for aggregation of the Group's risk position.

To manage its risk exposure, Aegon has risk policies in place. Many of these policies are group-wide while others are specific to the unique situation of local businesses. The Group level policies limit the Group's exposure to major risks such as equity, interest rates, credit, and currency. The limits in these policies in aggregate remain within the Group's overall tolerance for risk and the Group's financial resources. Operating within this policy framework, Aegon employs risk management programs including asset liability management (ALM) processes and models and hedging programs (which are largely conducted via the use of derivatives). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but are also part of the Group's overall risk strategy.

Aegon operates a Derivative Use Policy to govern its usage of derivatives. 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.



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As part of its risk management programs, Aegon takes inventory of its current risk position across risk categories. Aegon also measures the sensitivity of net income and shareholders' equity under both deterministic and stochastic scenarios. Management uses the insight gained through these "what if?" scenarios to manage the Group's risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated as necessary.

Results of Aegon's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios. For each type of market risk, the analysis shows how net income and shareholders' equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon's accounting policies. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. The shock may also affect the measurement of assets and liabilities based on assumptions that are not observable in the market. For example, a shock in interest rates may lead to changes in the amortization schedule of DPAC or to increased impairment losses on equity investments. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analyses.

The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on locked-in assumptions or on management's long-term expectations. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and shareholders' equity. Aegon has classified a significant part of its investment portfolio as "available-for-sale", which is one of the main reasons why the economic shocks tested have a different impact on net income than on shareholders' equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked directly to the revaluation reserves in shareholders' equity, unless impaired. As a result, economic sensitivities predominantly impact shareholders' equity but leave net income unaffected. The effect of movements of the revaluation reserve on capitalization ratios and capital adequacy are minimal. Aegon's target ratio for the composition of its capital base is based on shareholders' equity excluding the revaluation reserve.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon's future shareholders' equity or earnings. The analysis does not take into 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.



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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.

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
<b>Net income</b>			
Americas (in USD)	(261)	796	560
The Netherlands (in EUR)	753	62	521
United Kingdom (in GBP)	(674)	140	65
Central & Eastern Europe (in EUR)	24	9	(144)
Spain & Portugal (in EUR)	22	22	203
Asia (in USD)	(33)	(21)	(9)
Asset Management (in EUR)	121	79	73
<b>Equity in functional currency</b>	<b>17,609</b>	<b>21,254</b>	<b>19,746</b>

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Americas (in USD)			
The Netherlands (in EUR)	5,263	4,745	3,350
United Kingdom (in GBP)	2,981	3,975	2,998
Central & Eastern Europe (in EUR)	396	401	390
Spain & Portugal (in EUR)	464	783	752
Asia (in USD)	674	657	440
Asset Management (in EUR)	444	267	228

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

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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

	Estimated approximate effects on net income <sup>2)</sup>	Estimated approximate effects on shareholders equity
<b>Movement of markets <sup>1)</sup></b>		
<b>2015</b>		
Increase by 15% of USD currencies relative to the euro	71	2,161
Increase by 15% of GBP currencies relative to the euro	(165)	566
Increase by 15% of other non-euro currencies relative to the euro	(91)	2,820
Decrease by 15% of USD currencies relative to the euro	(50)	(1,539)
Decrease by 15% of GBP currencies relative to the euro	123	(390)
Decrease by 15% of other non-euro currencies relative to the euro	72	(1,993)
<b>2014</b>		
Increase by 15% of USD currencies relative to the euro	84	2,019
Increase by 15% of GBP currencies relative to the euro	42	771
Increase by 15% of other non-euro currencies relative to the euro	117	3,123
Decrease by 15% of USD currencies relative to the euro	(60)	(1,414)
	(32)	(544)

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Decrease by 15% of GBP currencies relative to the euro

Decrease by 15% of other non-euro currencies relative to the euro

(82)

(2,187)

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

<sup>2</sup> For the sensitivity analysis the book loss of Canada in 2015 has not been taken into account.

### Interest rate risk

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

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

During periods of sustained low interest rates, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided on policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Mortgage loans and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to borrow at lower interest rates and Aegon may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, net income declines as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

Aegon manages interest rate risk closely, taking into account all of the complexity regarding policyholder behavior and management action. Aegon employs sophisticated interest rate measurement techniques and actively uses derivatives and other risk mitigation tools to closely manage its interest rate risk exposure. Aegon operates an Interest Rate Risk policy that limits the amount of interest rate risk to which the Group is exposed. All derivative use is governed by Aegon's Derivative Use Policy. A detailed description on the use of derivatives within Aegon is included in note 24 Derivatives.

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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.

Parallel movement of yield curve	Estimated approximate effects on shareholders	
	Estimated approximate effects on net income	equity
<b>2015</b>		
Shift up 100 basis points	390	(4,428)
Shift down 100 basis points	(480)	2,559
<b>2014</b>		
Shift up 100 basis points	456	(4,010)
Shift down 100 basis points	(568)	2,476

**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.

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The table that follows shows the Group's maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 49 Transfer of financial assets for further information on collateral given, which may expose the Group to credit risk.

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	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agreements	Other	Total collateral	Surplus collateral (or overcollateralization)	Net exposure
<b>2015</b>										
Debt securities -carried at fair value	107,390	-	-	470	-	-	-	470	-	106,920
Money market and other short-term investments - carried at fair value	7,444	-	984	-	-	-	-	984	-	6,460
Mortgage loans -carried at amortized cost	32,899	2,070	-	1,387	45,244	-	1	48,702	15,644	(159)
Private loans - carried at amortized cost	2,847	-	-	-	-	-	-	-	-	2,847
Other loans - carried at amortized cost	2,517	-	-	-	-	-	2,193	2,193	1,377	1,701
Other financial assets - carried at fair value	3,932	-	-	-	-	-	-	-	-	3,932
Derivatives	10,643	1,510	696	-	-	7,972	-	10,178	58	523
Reinsurance assets	11,193	-	5,345	178	-	-	-	5,523	-	5,670
<b>At December 31</b>	<b>178,864</b>	<b>3,580</b>	<b>7,025</b>	<b>2,035</b>	<b>45,244</b>	<b>7,972</b>	<b>2,193</b>	<b>68,049</b>	<b>17,079</b>	<b>127,894</b>

	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agreements	Other	Total collateral	Surplus collateral (or overcollateralization)	Net exposure
<b>2014</b>										
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	-	