AEGON NV
Form 20-F
March 20, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 20-F

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(Mark One)

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

OR

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _________ to _________

OR

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

Commission file number 1-10882

-

Aegon N.V.

(Exact name of Registrant as specified in its charter)

-

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

J.H.P.M. van Rossum

Executive Vice President and Corporate Controller

Aegon N.V.

Aegonplein 50, 2501 CB The Hague, The Netherlands

+31-70-3445458

Jurgen_vanRossum@aegon.com

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

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

Title of each class	Name of each exchange on which registered
Common shares, par value EUR 0.12 per share	**New York Stock Exchange**

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

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

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

x Yes No ¨

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

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

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

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

¨ U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

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

¨ Item 17 ¨ Item 18

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

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Introduction

Filing

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

About this report

This report serves as Aegon s Annual Report for the year ended December 31, 2014. It presents the consolidated financial statements of Aegon (pages 120-281) and the financial statements of Aegon N.V. (pages 284-298), both prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board, and Part 9 of Book 2 of the Dutch Civil Code.

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

Presentation of certain information

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

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

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

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

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

Letter of the CEO

Aegon s strong operating performance in 2014 was underpinned by the progress we made to better understand and connect with our customers, together with our continued drive to be a leader in our chosen markets. Our work as a company is inspired by our purpose to help people take responsibility for their financial future, and I am proud of how the hard work, creativity and professionalism of Aegon s 28,000 employees are enabling us to become a truly customer-centric company.

A further increase in deposits this year is a clear demonstration of not only retaining the trust of existing customers, but also earning the trust of many new customers. Furthermore, revenue-generating assets increased significantly, exceeding EUR 500 billion for the first time in Aegon s history. These achievements did not mean, however, that the year was without its challenges. Changes to our assumptions and updates to our actuarial models had a negative impact on underlying earnings, as did continued market volatility, and in particular, low interest rates. Yet while these factors had an effect, they did not distract us from continuing to successfully execute our strategy and generate strong financial results.

Aegon s ambition is to become a leader in its chosen markets, and to this end we focus on four strategic priorities: optimize portfolio; enhance customer loyalty; operational excellence; and empower employees. The effective optimization of Aegon s portfolio in 2014 resulted in a number of significant positive developments. The extension of our successful relationship with Banco Santander in Spain led to a further distribution agreement with the bank in Portugal. We sold our stake in La Mondiale Participations in France and announced the sale of Aegon s Canadian life insurance business, as neither met our strategic objective of becoming a market leader. Later in the year, Aegon s growing asset management business and La Banque Postale entered into exclusive talks to form a new asset management strategic alliance in France, and we announced a new joint venture partner, Tsinghua Tongfang, for our life insurance company in China.

Investing in Aegon s digital presence and reach has been central to our continued work to enhance customer loyalty. 2014 saw a range of new and improved online platforms, products and services that enabled us to strengthen and deepen our relationship with customers. The external awards that many of these received is recognition of the progress we have made in serving customers in the way they wish to be served something particularly important given the speed at which customer behavior is evolving and the emergence of new entrants in the market.

An important development in delivering operational excellence was the creation of Transamerica s new Investments & Retirement division. This new division will enable us to become more efficient, and more effective in serving customers needs throughout the entire customer life cycle, up to and including retirement.

Aegon s employees are our best source of ideas and our most important resource to connect with customers. Empowering colleagues to enable them to fulfill their roles to the very best of their abilities such as through additional training and new resources is therefore every bit as important as investment in other parts of the Company. Over the last 12 months, we have also continued to focus on fostering a culture in which trust, responsibility and innovation are actively encouraged, and ensuring our common purpose is fully understood and acted upon.

Aegon always aims to adhere to the highest standards of corporate governance and transparency, and to report in an open and transparent way. For this reason, in addition to the information presented in this report, we are also pleased to produce a separate integrated report, available on Aegon.com. This contains further information about our social, economic and environmental performance and impacts, together with how we create value for our stakeholders.

Preparation for the introduction of Solvency II, which will come into effect on January 1, 2016, was a key priority for 2014. The new regulations will change capital requirements and remain a key priority of our activities throughout 2015.

On behalf of the Management Board, I would like to express my thanks and appreciation to everyone at Aegon for their individual and collective contributions to the results presented in this report. Furthermore, I would also like to express my gratitude and commitment to our many shareholders whose confidence and support enables us to deliver on our promises.

As we look to the future, Aegon is well positioned to take advantage of the many opportunities that exist in the markets in

which it operates. While we can expect a number of continued headwinds such as low interest rates the withdrawal of governments and employers from providing retirement security means that the underlying demand for the pensions, life insurance and asset management products and services that we offer is only set to rise. By continuing to execute our strategy, we can be confident that we will not only continue to help millions of people across the world secure their financial future, but also deliver excellent value to shareholders.

Thank you for your interest in Aegon.

Alex Wynaendts

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

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.

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 member of the Executive Board of Aegon. He is also a member of the Management Board.

Adrian Grace (1963, British)

Chief Executive Officer of Aegon UK

Member of the Management Board

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

Tom Grondin (1969, Canadian)

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 s US institutional business 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.

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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 member of the Board. Three years later, Mr. Keim was appointed CEO. In June 2008, he became CEO of Aegon the Netherlands and a member of Aegon s Management Board.

Gábor Kepecs (1954, Hungarian)

Chief Executive Officer of Aegon Central & Eastern Europe

Member of the Management Board

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

Mark Mullin (1963, American)

Chief Executive Officer of Aegon Americas

Member of the Management Board

Mark Mullin has spent more than 20 years with Aegon in various investment and business management positions in both the United States and Europe. Mr. Mullin has served as President and CEO of one of Aegon s US subsidiaries, Diversified Investment Advisors, and as head of the Company s annuity and mutual fund businesses. He was named President of Aegon Americas in 2009, and became President and CEO of Aegon Americas and a member of the Management Board the following year.

Aegon s strategy

Aegon serves customer needs for protection, accumulation and retirement by providing insurance, pensions and asset management products. The company operates in more than 25 markets in the Americas, Europe and Asia, with EUR 558 billion in revenue-generating assets. Aegon employs over 28,000 people, and has millions of customers across the globe.

Aegon s ambition is to become a leader in all its chosen markets. This means being the most recommended provider of insurance, pensions and asset management products among customers, the preferred partner among intermediaries and distributors, and the employer of choice for both current and prospective employees.

Aegon believes that everyone deserves to retire with dignity and peace of mind, and its purpose is to help people take responsibility for their financial future. To achieve this, the Company strives to provide easy-to-understand products that help customers make better financial decisions for themselves and their families.

Recognizing the increasing demand for asset protection, accumulation and long-term retirement security products and services, Aegon is investing in new approaches to better serve the full range of customers financial needs throughout the customer life cycle. This includes accelerating investment in technology to better enable Aegon s businesses to interact directly with customers.

Fostering a truly customer-centric culture throughout the organization is at the core of Aegon s strategy. This entails ensuring that every employee understands how he or she can contribute to a distinctive and consistently positive customer experience. To support this essential cultural mind-set, a new coordinated approach to performance management has been implemented across Aegon s businesses, with a strong emphasis on talent development and customer centricity, and compensation and incentives aligned accordingly. Aegon encourages new thinking and innovative approaches as it continues to execute its strategy.

In recent years, Aegon has taken steps to reduce costs, lower risk and free up capital for reinvestment in its businesses, to deleverage and to pay out dividends. Furthermore, it has divested businesses no longer considered core, or that have failed to provide sufficient returns or prospects for long-term growth. These actions have enabled Aegon to achieve a solid capital position, deal effectively with economic and market volatility, and position its businesses for future growth. At the same time, Aegon has invested in key areas of growth, such as emerging markets in Central & Eastern Europe, Asia and the Americas, while also restructuring its businesses to achieve greater

operational efficiency and deliver a higher level of customer service. Better leveraging the broad expertise that exists within Aegon across various businesses and geographies continues to be a key strategic objective.

To support Aegon s overarching ambition of becoming a leader in all its chosen markets, the Company is implementing four strategic priorities:

¿ To optimize its portfolio by investing in businesses that offer attractive returns and strong prospects for growth and, if necessary, closing or divesting businesses that do not meet Aegon s risk-return requirements, or contribute to its long-term ambitions;

- To enhance customer loyalty by improving customer service, investing in new distribution capabilities, strengthening its brands and expanding the Company s online presence to connect better and more frequently with its customers;
- To deliver operational excellence by improving efficiency and reducing costs, innovating and making better use of its resources around the world; and
- To empower employees by providing the tools, training and internal culture necessary to better serve the developing needs of Aegon s customers, while also enabling employees to realize their full potential.

In 2014, Aegon made clear progress toward each of these priorities, helping position the Company s businesses for the future, and meet the risks and opportunities presented by long-term industry trends.

Optimize portfolio

Aegon continued to optimize its portfolio during 2014 in its core markets in the Americas, Europe and Asia by:

- Continuously investing in the rapidly-expanding at-retirement market of people in their fifties and sixties who are actively preparing for retirement in the United States and the United Kingdom;
- Extending its successful strategic partnership with Banco Santander in Spain to Portugal, providing access to over 2 million additional potential customers through more than 600 branches;
- Acquiring the remaining 50% stake of Dutch online car insurance broker onna-onna;

- Agreeing to sell its Canadian business, subject to regulatory approval;
- Selling its 35% stake in La Mondiale Participations in France;
- Replacing its life insurance joint venture partner in China with technology company Tsinghua Tongfang;
- Re-pricing, redesigning and withdrawing products, improving Aegon s overall product mix to reduce capital requirements and improve profitability; and
- Entering into exclusive talks to form a new asset management strategic alliance with La Banque Postale in France.

Enhance customer loyalty

Aegon is expanding its digital distribution capability, strengthening its brands, improving the understanding of customers s changing needs, and improving customer services by:

Investing in Digital :

- Launching new online products in Spain and Turkey, Aegon now retails online in nearly all its markets, and has also expanded its digital marketing and social media activities;
- Relaunching Transamerica.com, including a program targeted at Active Lifestyle customers and Your Financial Life a personalized retirement platform that informs people about their retirement readiness and options available to them;
- Introducing direct-to-consumer platform Retiready in the UK. Retiready is designed to help people understand whether their finances are on track to meet their retirement ambitions, and offers a range of products to support their retirement needs;
- Launching the Mijn Aegon (My Aegon) portal in the Netherlands. Customers can view the status of all their products online, such as their savings and investment accounts, insurance and pension products;
- Improving services delivered at customer service centers by, among other things, the implementation of new Customer Relationship Management (CRM) software and training of employees; and
- Investing in data analytics. Aegon has established a Customer Intelligence Council and invested in technology to improve the analysis of customer data and statistics, providing valuable customer insights.

Using a common measurement for customer loyalty. Aegon has implemented the Net Promoter Score (NPS) throughout its businesses, enabling the continuous implementation of feedback received from customers, brokers and agents.

Releasing its third annual global Retirement Readiness Survey, raising awareness of retirement needs and Aegon brands. Based on the findings of this report, Aegon published an additional report: Women: balancing family, career & financial security ;

Offering high-quality products and services recognized by third parties, for example:

- Transamerica Retirement Solutions recognized as a Best in Class retirement plan provider by plan sponsors in Chatham Partners 2014 Client Satisfaction Analysis;
- Aegon UK awarded the best workplace savings platform at the Platforum Awards 2014;
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Mongeral Aegon won the Products and Services category at the 2014 Antonio Carlos de Almeida Braga Innovation in Insurance Awards. The award recognized Mongeral Aegon s new digital distribution strategy, which integrates traditional distribution channels with their online store, broker-partners stores, business partners stores and the EuPlanejo360° content website;

- Aegon Hungary received the award for Financial Institution of the year from Figuelo magazine;
- Aegon Czech Republic received two bronze awards in the Nejlep í banka, Best bank and insurance company 2014 awards in the Best life insurance company 2014 and Insurance innovator categories;
- Aegon s joint venture in India, Aegon Religare Life Insurance, won the Marketing Campaign of the Year at the Global Marketing Excellence Awards 2014 in recognition of its innovative Wonder Cook marketing campaign;
- Aegon the Netherlands was awarded the Gold Award by Social Media Insurance Monitor. The jury recognized that social media was strategically integrated into Aegon s business and that the stimulating daily content was both customer centric and effective; and
- Knab, Aegon s innovative online bank, was awarded the Gouden Stier (Golden Bull) for the best new investment concept for making investing simple, convenient and accessible.

Deliver operational excellence

Aegon improved efficiency, supported intermediaries and expanded distribution through traditional channels by:

- Creating a new Investments & Retirement division in the US, combining the Individual Savings & Retirement and Employer Solutions & Pensions divisions;
- Pursuing value over volume through a strict pricing discipline. This approach secured profitable, sustainable growth, while ensuring that customer benefits be fully assessed and taken into account through an updated Pricing & Product Development Policy before any new product or service is introduced;
- Simplifying Aegon s offering through product rationalization;
- Establishing Aegon s enterprise IT strategy and the global IT governance framework;
- Implementing a tablet-based sales process in Turkey, which will reduce operational costs in addition to improving customer experience; and
- Expense savings create room to invest in Aegon s businesses and accelerate the execution of its strategy.

Empower employees

Aegon strengthened employee engagement and improved the working environment by:

- ¿ Enhancing employee communication with the launch of AsiaNet in Hong Kong (November, 2013) and its rapid expansion to Singapore, Indonesia and Australia in 2014, and by increasing the frequency of Town Hall employee meetings;
- ¿ Running Leadership Development Centers (e.g. Aegon University) and a number of local talent programs;
- ¿ Organizing a program of meetings and events with senior staff and employees to raise understanding of the link between Aegon s Purpose and Performance ;
- ¿ Improving career development by launching an Employee Development Portal and Global Job Vacancy overview, and upgrading Aegon s careers website;
- ¿ Promoting workforce diversity by supporting initiatives such as joining Workplace Pride, a foundation that promotes greater acceptance of LGBT (Lesbian, Gay, Bisexual and Transgender) people in the workplace and society, in the Netherlands;
- ¿ Undertaking the third annual Global Employee Engagement Survey with updated questions;
- ¿ Preparing the implementation of HR information system Workday , which will give managers and employees direct access to relevant HR data;
- ¿ Adapting Aegon s Remuneration Framework for implementation in 2015 in order to have a stronger focus on relevant targets for employees; and
- ¿ Using the Employee Net Promoter Score (eNPS) methodology to ensure that Aegon employees are the best promoters of Aegon s products and solutions.

Market conditions

Despite a weak first half of the year, the global economy continued to grow in 2014, with global output expanding by 3.3%[1]. However, growth in many countries remained low. Global growth for 2015 is expected to remain stable, with the global economy still facing significant downside risks.

The US economy grew steadily after the first quarter of 2014, reaching annual growth of 2.4%[2] driven by increasing investments by the corporate sector and positive financial conditions. Unemployment declined steadily, while real wages remained flat. Growth is expected to accelerate to around 3% in 2015.

In Europe, growth remained low in 2014. Several factors including tight lending conditions and fiscal contraction continue to slow economic development[3]. Growth reached 0.8% for the eurozone in 2014, and is expected to increase slightly to 1.3% in 2015. Economic growth in Germany and France rose modestly, at 1.45% and 0.4% respectively. While the Netherlands and Spain came out of recession, Italy s economy continued to contract, albeit at a lower pace. In the UK, output increased by 2.6%. While all economies in the eurozone are expected to show positive growth in 2015, the growth rate is expected to remain low.

Economic development[4] in Central & Eastern Europe remained patchy. While growth continued to be weak in Southeast Europe, development in Hungary, Poland and Turkey remained strong. Overall growth in the region reached 2.7% in 2014, and is expected to remain at around this level in 2015.

While growth[5] in emerging markets is still higher than in developed markets, it has decreased since 2011, standing at 4.7% in 2014, and is expected to increase slowly in the coming years. As in Europe, growth in emerging markets varies considerably between countries. China was able to sustain high growth (7.4%) in 2014, which is expected to only slow very slightly to 7.1% in 2015. In India, output also continued to increase in 2014, and is expected to rise to over 6.3% in 2015. In Brazil, economic growth was disappointing, and the economy contracted in the first half of 2014. Overall, its growth for the year stood at only 0.3% in 2014, but is expected to exceed 1.3% in 2015.

The S&P 500 Index and the DAX in Germany continued to rise[6] in 2014, whereas the FTSE 100 declined. Driven by the prospect of a more stimulative monetary policy in the eurozone[7], - which was announced by the European Central Bank in January 2015 -, the euro lost ground against the US dollar (-11.1%) and the British pound (-6%). The low interest rate environment continued. Yields for 10-year US, UK, German and Japanese government bonds declined during 2014. At the end of the year, German and Japanese bonds[8] showed significantly lower yields than those of the US and UK (0.5% and 0.3% versus 2.2% and 1.8% respectively).

Long-term industry trends

The insurance and pensions industry is going through a period of significant change. Aegon, with input from key stakeholders, has

1 Source: For economic figures in this sections (Market conditions) see the IMF World Economic Outlook Database, October 2014 (http://imf.org/external/pubs/ ft/weo/2014/02/weodata/index.aspx).
2 Source: US Department of Commerce (bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm).
3 Source: For economic data in this paragraph: European Economic Forecast Winter 2015 (ec.europe.eu/economy_finance/publications/european_ economy/2015/pdf/ee1_en.pdf).
4 Source: For economic data in this paragraph: IMF World Economic Outlook Database October 2014 (imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx).
5 Source: For economic data in this paragraph: IMF World Economic Outlook Database October 2014 (imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx).
6 Source: Stock index data in this paragraph: Bloomberg.com.
7 Source: Exchange rate data from the European Central Bank (ecb.europe.eu/stats/exchange/eurofxef/html/index.en.html).
8 Source: Bond data in this paragraph: Bloomberg.com.

identified a number of key trends that will shape the life insurance and pension landscape in the years ahead.

Customers needs are changing

Rising retirement population will drive demand: with 11% of the world s population currently aged over 60 years and projected to be 14% in 2020 and 25% in 2050 the need for long-term protection and savings/de-accumulation will continue to grow.

The demands of customers young and old are changing fundamentally: less trust in financial institutions, changing views on retirement, and shifting product and distribution demands, are all changing the way financial institutions operate.

Digitization is driving change

Aegon s competition is shifting to new technologies: competitors and new entrants are experimenting with new value propositions to provide better services to customers, and delivery systems are becoming more agile and efficient.

Reduced safety net: the withdrawal of traditional providers of retirement security such as governments and employers is leading to an increased demand for individualized saving products.

Traditional distribution models remain important with new channels developing: customers are increasingly focusing on

purchasing insurance products online, but will continue to purchase complex life insurance face-to-face.

The rise of Big Data: organizations can maximize business value and efficiency and improve customer service by harvesting increasingly large volumes of data.

Markets are developing differently and becoming more volatile

The economy will continue to develop at different speeds across the markets in which Aegon operates: financial services will grow faster in emerging markets (growing wealth, low life insurance penetration and increasing longevity), but with less certainty regarding government policy relating to financial services. This uncertainty will be a key contributory factor to continued market volatility.

Increase in regulations and the demand for responsible behavior

The increasing importance of sustainability and good governance: growing stakeholder pressure is leading to increased focus on the long-term economic, environmental and social performance and impact of companies such as Aegon.

Regulatory requirements are increasing: a number of governments have implemented sudden changes in policy and are issuing new regulations on solvency, transparency and customer protection.

Business overview

History and development of Aegon

Aegon N.V. is an international life insurance, pensions and asset management company domiciled in the Netherlands, with public limited liability company status under Dutch law.

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 employs over 28,000 people worldwide. Aegon s common shares are listed on stock exchanges in Amsterdam (Euronext) and New York (NYSE).

Aegon s main operating units are separate legal entities 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. New products and services are developed by local business units with a continuous focus on helping people take responsibility for their financial future. 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, Canada, Mexico and Brazil; the Netherlands; the United Kingdom; and New Markets, which includes a number of countries in Central & Eastern Europe and Asia, in addition to Spain, France, Variable Annuities Europe, and Aegon Asset Management.

Selected financial data

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

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 (pages 122-283) of this Annual Report.

Selected consolidated income statement information In EUR million (except per share amount)	**2014**	2013 [1)]	2012 [1)]	2011 [1)]	2010 [1)]
Amounts based upon IFRS					
Premium income	19,864	19,939	19,049	19,521	21,097
Investment income	8,148	7,909	8,413	8,167	8,762
Total revenues [2)]	30,157	29,805	29,327	29,159	31,608
Income/ (loss) before tax	889	1,189	2,005	1,027	1,727
Net income/ (loss)	**757**	**989**	**1,633**	**936**	**1,605**
Earnings per common share					
Basic	0.29	0.36	0.72	(0.03)	0.67
Diluted	0.29	0.36	0.72	(0.03)	0.61
Earnings per common share B					
Basic	0.01	0.01	-	-	-
Diluted	0.01	0.01	-	-	-

1 As described in note 2.1.2 amounts have been retrospectively restated for the voluntary change in accounting policy on deferred policy acquisition costs and the use of prospective mortality tables.

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

Selected consolidated balance sheet information					
In million EUR (except per share amount)	**2014**	2013 1)	2012 1)	2011 1)	2010 1)
Amounts based upon IFRS					
Total assets	424,467	351,860	363,063	343,155	330,158
Insurance and investment contracts	321,384	283,234	277,596	272,105	272,236
(Subordinated) Borrowings and trust pass-through securities	15,049	12,009	13,416	9,377	7,886
Shareholders equity	23,957	17,694	21,037	17,545	14,320

1 As described in note 2.1.2 amounts have been retrospectively restated for the voluntary change in accounting policy on deferred policy acquisition costs and the use of prospective mortality tables.

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Number of common shares					
In thousands	2014	2013	2012	2011	2010
Balance at January 1	2,131,459	1,972,030	1,909,654	1,736,049	1,736,049
Share issuance	-	120,713	-	173,605	-
Stock dividends	14,489	38,716	62,376	-	-
Balance at end of period	**2,145,948**	**2,131,459**	**1,972,030**	**1,909,654**	**1,736,049**

Number of common shares B					
In thousands	2014	2013	2012	2011	2010
Balance at January 1	579,005	-	-	-	-
Share issuance	2,320	579,005	-	-	-
Balance at end of period	**581,326**	**579,005**	**-**	**-**	**-**

Dividends

Aegon declared interim and final dividends on common shares for the years 2010 through 2014 in the amounts set forth in the following table. The 2014 interim dividend amounted to EUR 0.11 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 19, 2014. At the General Meeting of Shareholders on May 20, 2015, the Supervisory Board will, absent unforeseen circumstances, propose a final dividend of EUR 0.12 per common share (at each shareholders option in cash or in stock), which will bring the total dividend for

2014 to EUR 0.23. Proposed dividend for the year and proposed final dividend 2014 per common share B are EUR 0.00575 and EUR 0.003 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.

	EUR per common share [1)]			USD per common share [1)]		
Year	Interim	Final	Total	Interim	Final	Total
2010	-	-	-	-	-	-
2011	-	0.10	0.10	-	0.13	0.13
2012	0.10	0.11	0.21	0.12	0.14	0.26
2013	0.11	0.11	0.22	0.15	0.15	0.30
2014	0.11	0.12[2)]	0.23	0.15		

[1] Paid at each shareholder s option in cash or in stock.
[2] Proposed.

From May 2003 to May 2013, Aegon had common shares and class A and class B preferred shares. The annual dividend on Aegon s class A and class B preferred shares was calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on Euronext Amsterdam s first working day of the financial year to which the dividend relates. Apart from this, no

other dividend was paid on the preferred shares. This resulted in a rate of 2.75% for the year 2012. Applying this rate to the weighted average paid-in capital of its preferred shares during 2012, the total amount of annual dividends Aegon made in 2013 on its preferred shares for the year 2012 was EUR 59 million. In addition, Aegon paid a 2013 interim dividend on the preferred shares of EUR 24 million, covering the period from January 1, 2013 until the cancellation of all preferred shares in May 2013.

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Exchange rates

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

As of March 2, 2015, the USD exchange rate was EUR 1 = USD 1.1190.

The high and low exchange rates for the US dollar per euro for each of the last six months through February 2015 are set forth below:

Closing rates	Sept. 2014	Oct. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015
High (USD per EUR)	1.3136	1.2812	1.2554	1.2504	1.2015	1.1462
Low (USD per EUR)	1.2628	1.2517	1.2394	1.2101	1.1279	1.1197

The average exchange rates for the US dollar per euro for the five years ended December 31, 2014, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate [1)]
2010	1.3216
2011	1.4002
2012	1.2909
2013	1.3303
2014	1.3210

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

Business lines

Americas

United States - Life & Protection

Products with mortality, morbidity and longevity risks, including traditional and universal life, in addition to endowment, term, and whole life insurance products. Accident and health business, including 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

Individual Savings & Retirement

Primarily variable annuity products and retail mutual funds. Currently fixed annuities are not actively sold.

Employer Solutions & Pensions

Offers administrative, compliance, investment and participant services for pension plans, including 401(k) plans; also offers stable value solutions.

Canada

Term and permanent life insurance, critical illness insurance and segregated funds. On October 16, 2014, Aegon announced its agreement to sell its Canadian operations to Wilton Re, subject to regulatory approval.

Latin America

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

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

The Netherlands

Life & Savings

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

Pensions

Individual and group pensions usually sponsored by, or obtained via, an employer.

Non-life

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

Distribution

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

United Kingdom

Life

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

Pensions

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

New Markets

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

Central & Eastern Europe

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

Spain & Portugal

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

Asia

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

Variable Annuities Europe

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

Aegon Asset Management

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

Results of operations

Results 2014 worldwide

Underlying earnings geographically			
Amounts in EUR millions	2014	2013	%
Net underlying earnings	**1,416**	**1,531**	**(8%)**
Tax on underlying earnings	449	437	3%
Underlying earnings before tax geographically			
Americas	1,134	1,314	(14%)
The Netherlands	558	454	23%
United Kingdom	115	87	32%
New markets	196	227	(14%)
Holding and other activities	(138)	(113)	(22%)
Underlying earnings before tax	**1,865**	**1,968**	**(5%)**
Fair value items	(1,366)	(1,118)	38%
Gains / (losses) on investments	697	500	39%
Net impairments	(34)	(122)	72%
Other income / (charges)	(240)	(52)	-
Run-off businesses	(21)	21	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**900**	**1,197**	**43%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*10*	*8*	*25%*
Income tax	(143)	(208)	(66%)
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(10)*	*(8)*	*(25%)*
Net income	**757**	**989**	**38%**
Commissions and expenses	5,892	5,873	-
of which operating expenses	3,312	3,273	1%

This Annual Report includes the non-IFRS financial measure: underlying earnings before tax. The reconciliation of this measure to the most comparable IFRS measure is presented in the table above as well as in note 5 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 herein. 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 comparing them. Aegon believes the non-IFRS measures shown herein, when read together with Aegon s reported IFRS financial statements, provide meaningful supplemental information for the investing public to evaluate Aegon s 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 (that is, companies may use different local generally accepted accounting principles - GAAPs), and this may make the comparability difficult from period to period.

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

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

Worldwide revenues geographically 2014 Amounts in EUR millions	Americas	The Nether-lands	United Kingdom	New Markets	Holding, other activities and elimina-tions	Segment total	Associ-ates and Joint Ventures elimina-tions	Consoli-dated
Total life insurance gross premiums	6,461	3,982	4,859	2,015	(70)	17,246	(351)	16,896
Accident and health insurance premiums	1,874	233	56	163	-	2,326	(11)	2,316
General insurance premiums	-	501	-	224	-	725	(72)	653
Total gross premiums	**8,334**	**4,716**	**4,916**	**2,402**	**(70)**	**20,298**	**(433)**	**19,864**
Investment income	3,312	2,568	2,073	234	2	8,191	(42)	8,148
	1,485	324	43	623	(237)	2,237	(100)	2,137

Fees and commission income								
Other revenue	2	-	-	3	5	10	(3)	7
Total revenues	**13,134**	**7,608**	**7,032**	**3,262**	**(300)**	**30,735**	**(578)**	**30,157**
Number of employees, including agent employees	12,865	4,426	2,420	8,617	274	28,602		

Underlying earnings before tax by line of business

Amounts in EUR millions	**2014**	2013	%
Life	628	976	(36%)
Individual Savings & Retirement	665	487	37%
Pensions	507	467	9%
Non-life	46	12	-
Distribution	15	16	(6%)
Asset management	115	95	21%
Other	(138)	(109)	(27%)
Associates	27	24	13%
Underlying earnings before tax	**1,865**	**1,968**	**(5%)**

Results 2014 worldwide

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

Net income

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

Underlying earnings before tax

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

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

Fair value items

The results from fair value items amounted to a loss of EUR 1,366 million. The loss was mainly driven by adverse results on hedging programs in the United States (EUR 301 million), adverse fair value movements on interest rate hedges, longevity hedges and result on derivatives where no hedge accounting is applied in the Netherlands (EUR 739 million), the adverse impact of assumption changes and model updates (EUR 123 million), and the underperformance of alternative investments in the United States (EUR 90 million).

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

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

Realized gains on investments

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

Impairment charges

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

Other charges

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

Run-off businesses

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

Income tax

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

Commissions and expenses

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

Production

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

Capital management

In 2014, shareholders equity increased EUR 6.3 billion compared with December 31, 2013 to EUR 24.0 billion. This was driven by lower interest rates, which resulted in higher revaluation reserves, and favorable currency exchange rates. During the year, the revaluation reserves increased by EUR 5.3 billion to EUR 8.3 billion. Aegon s shareholders equity, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 17.3 billion on December 31, 2014. The gross leverage ratio improved to 28.7% on December 31, 2014 compared to the end of 2013, which was mostly as a result of deleveraging. Excess capital in the holding decreased to EUR 1.2 billion on December 31, 2014 compared to 2013 (EUR 2.2 billion), as dividends from business units were more than offset by the impact of cash used for deleveraging, interest payments and operating expenses.

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

On December 31, 2014, Aegon s Insurance Group Directive (IGD) ratio stood at 208%. The capital in excess of the S&P AA threshold in the United States remained stable at USD 1.1 billion, as dividends paid to the holding were offset by earnings. The RBC ratio in the United States was ~540% at year-end 2014. In the Netherlands, the IGD ratio, excluding Aegon Bank, was ~215%. The Pillar 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.

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

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

Dividends from and capital contributions to business units

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

Results 2013 worldwide

Underlying earnings geographically			
Amounts in EUR millions	2013	2012	%
Net underlying earnings	**1,531**	**1,510**	**1%**
Tax on underlying earnings	437	472	(7%)
Underlying earnings before tax geographically			
Americas	1,314	1,294	2%
The Netherlands	454	556	(18%)
United Kingdom	87	90	(3%)
New markets	227	266	(15%)
Holding and other activities	(113)	(224)	50%
Underlying earnings before tax	**1,968**	**1,982**	**(1%)**
Fair value items	(1,118)	(56)	-
Gains / (losses) on investments	500	418	20%
Net impairments	(122)	(176)	31%
Other income / (charges)	(52)	(162)	68%
Run-off businesses	21	14	50%
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**1,197**	**2,020**	**(41%)**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*8*	*15*	*(47%)*
Income tax	*(208)*	*(387)*	*46%*
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(8)*	*(15)*	*47%*
Net income	**989**	**1,633**	**(39%)**
Commissions and expenses	5,873	5,817	1%
of which operating expenses	3,273	3,177	3%

New life sales			
Amounts in EUR millions	2013	2012	%
Americas	464	520	(11%)
The Netherlands	206	246	(16%)
United Kingdom	1,014	936	8%
New markets	228	253	(10%)
Total life production	**1,911**	**1,955**	**(2%)**

Gross deposits (on and off balance)

Amounts in EUR millions	2013	2012	%
Americas	28,424	27,042	5%
The Netherlands	1,338	1,484	(10%)
United Kingdom	281	37	-
New markets	14,287	10,909	31%
Total gross deposits	**44,330**	**39,472**	**12%**

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Worldwide revenues geographically 2013

Amounts in EUR millions	Americas	The Nether-lands	United Kingdom	New Markets	Holding, other activities and elimina-tions	Segment total	Associ-ates and Joint Ventures elimina-tions	Consoli-dated
Total life insurance gross premiums	6,187	3,515	6,537	1,349	(59)	17,529	(416)	17,112
Accident and health insurance premiums	1,787	243	-	170	-	2,200	(10)	2,190
General insurance premiums	-	487	-	194	-	681	(44)	637
Total gross premiums	**7,975**	**4,245**	**6,537**	**1,713**	**(59)**	**20,410**	**(471)**	**19,939**
Investment income	3,370	2,310	2,054	233	-	7,968	(58)	7,909
Fees and commission income	1,273	328	80	583	(238)	2,026	(76)	1,950
Other revenue	4	-	-	2	4	10	(3)	6
Total revenues	**12,622**	**6,883**	**8,670**	**2,531**	**(293)**	**30,413**	**(608)**	**29,805**
Number of employees, including agent employees	12,256	4,282	2,400	7,651	302	26,891		

Underlying earnings before tax by line of business

Amounts in EUR millions	2013	2012	%
Life	976	1,027	(5%)
Individual Savings & Retirement	487	462	5%
Pensions	467	552	(15%)
Non-life	12	15	(20%)
Distribution	16	15	7%
Asset management	95	101	(6%)
Other	(109)	(224)	51%
Associates	24	34	(29%)
Underlying earnings before tax	**1,968**	**1,982**	**(1%)**

Results 2013 worldwide

Aegon s 2013 net income amounted to EUR 989 million. Underlying earnings before tax amounted to EUR 1,968 million. Furthermore, results in 2013 were impacted by a loss of EUR 1,118 million on fair value items driven by accounting losses on the hedging programs and long-term economic assumption changes. This was partly offset by lower impairment charges and lower other charges since 2012 included a charge of EUR 265 million in relation to the acceleration of product improvements for unit-linked insurance policies.

Net income

Net income decreased to EUR 989 million compared to EUR 1,633 million in 2012. Higher underlying earnings, realized gains on investments, lower impairments and other charges were more than offset by losses from fair value items.

Underlying earnings before tax

Aegon s underlying earnings before tax in 2013 decreased 1% to EUR 1,968 million compared to EUR 1,982 million in 2012. Underlying earnings before tax rose from business growth, deleveraging, the positive effects of favorable equity markets and the net positive impact of one-time items. These positive one-time items were only partly offset by the loss of earnings due to divestments in Spain and Aegon Asset Management and the impact of unfavorable currency exchange rates.

- ¿ Underlying earnings before tax in the Americas improved slightly to EUR 1,314 million. Growth in Variable Annuities and Pensions offset the impact of unfavorable currency exchange rates, lower earnings from Fixed Annuities, higher sales and employee related expenses, and additional investments in technology. At constant currencies, underlying earnings increased by 5%.
- ¿ In the Netherlands, underlying earnings before tax decreased 18% to EUR 454 million. Improvement in non-life was more than offset by lower Pension earnings, driven mostly by the non-recurring benefit in 2012 from renewals of contracts and Life & Savings, due mostly to reduced policy charges on unit-linked products of EUR 28 million as part of the acceleration of product improvements to unit-linked insurance policies.
- ¿ Underlying earnings before tax in the United Kingdom amounted to EUR 87 million in 2013, a decline of 3% compared to 2012. The positive impact of higher equity markets was more than offset by adverse persistency of EUR 22 million following the implementation of the Retail Distribution Review and investment in technology.
- ¿ Underlying earnings before tax from New Markets declined 15% to EUR 227 million. Higher earnings in Asia and Aegon Asset Management, which benefitted from higher asset balances were more than offset by lower earnings in Central & Eastern Europe due to the introduction of the insurance tax in Hungary and the divestments in Spain and Aegon Asset Management.

¿ Total holding costs decreased 50% to EUR 113 million, mainly as a result of lower net interest costs following debt redemptions, lower operating expenses and a gain of EUR 18 million related to interest on taxes.

Fair value items

The results from fair value items amounted to a loss of EUR 1,118 million. The loss was mainly driven by equity macro hedges (EUR 590 million) and long-term economic assumption changes (EUR 405 million) in the Americas and a loss of EUR 118 million in the guarantee portfolio in the Netherlands, which is mainly the result of the tightening of Aegon s credit spread and model refinements.

In 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 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 loss on fair value hedges in the Americas was mainly driven by the loss on the equity macro hedges, which have been set up to protect Aegon s capital position, as a result of strong US equity market performance in 2013. Aegon restructured its equity hedges as the equity collar hedge expired at the end of the year.

Realized gains on investments

Realized gains on investments amounted to EUR 500 million and were driven primarily by adjustments to the asset mix in the Netherlands during the second half of the year to bring it in line with the new regulatory yield curve, as well as normal trading activity.

Impairment charges

Impairment charges improved by EUR 54 million to EUR 122 million in 2013, mostly due to recoveries on investments in subprime residential mortgage-backed securities in the United States.

Other charges

Other charges amounted to EUR 52 million, which is a 68% improvement from 2012 and included a charge of EUR 192 million related to a write-off of intangibles related to the Polish pension fund business following a legislation change coming into force in January 2014. In addition, 2013 included a charge of EUR 71 million due to increased accruals in connection with Aegon s use of the U.S. Social Security Administration s death master-file and a EUR 25 million charge in the Netherlands following the Koersplan court verdict and restructuring charges mainly in the Americas and the United Kingdom (EUR 108 million in total). These charges were partly offset by gains from the sale of joint ventures with Unnim and CAM of EUR 102 million and EUR 74 million respectively, and gains from the recapture of certain reinsurance contracts amounting to EUR 200 million in the Americas.

Run-off businesses

The results of run-off businesses improved to EUR 21 million, mainly due to a deferred policy acquisition cost (DPAC) true-up of EUR 11 million in BOLI/COLI (bank/corporate owned life insurance).

Income tax

Income tax amounted to EUR 208 million. The effective tax rate on total income was 17%, driven mostly by the combined effects of negative fair value items taxed at nominal rates, tax credits and tax exempt items. There was also a tax charge of EUR 50 million in the Americas related to hedging losses in 2013, and a benefit of EUR 93 million in the United Kingdom from a reduction in the corporate tax rate from 23% to 20%. The effective tax rate on underlying earnings for 2013 was 21%.

Commissions and expenses

Commissions and expenses in 2013 increased 1% compared to 2012 to EUR 5,873 million. Operating expenses increased 3% to EUR 3,273 million, driven mainly by higher sales and employee

performance related expenses due to growth in the Americas, restructuring costs in the Americas and United Kingdom, and higher investments in technology to support future growth.

Production

Compared to 2012, Aegon s total sales increased 6% to EUR 7.2 billion as higher gross deposits more than offset lower new life sales. Gross deposits increased 12% to EUR 44.3 billion, driven by variable annuities and mutual funds in the United States and Aegon Asset Management. New life sales were down 2%. Higher pension production in the United Kingdom was offset primarily by lower universal life sales in the Americas due to product withdrawals and product redesign, resulting from focus on value creation, as well as adverse currency movements.

Capital management

The 2013 gross leverage ratio, which is calculated by dividing the total gross financial leverage by the total capitalization, was 33.3%.

Aegon s Insurance Group Directive (IGD) ratio decreased to 212%, mainly due to the impact of IAS 19 and the switch to the swap curve for regulatory solvency calculations in the Netherlands. The combined risk-based capital ratio of Aegon s life insurance subsidairies in the United States was approximately 440% of the Company Action Level (CAL) risk-based capital. The IGD ratio in the Netherlands, excluding Aegon Bank, was approximately 240%. The Pillar I ratio in the United Kingdom, including the With Profit fund, was approximately 150% at the end of 2013.

On February 10, 2014, Aegon called for the redemption of the USD 550 million in junior perpetual capital securities with a coupon of 6.875% issued in 2006. The redemption was effective March 15, 2014, when the principal amount of USD 550 million was repaid with accrued interest.

Dividends from and capital contributions to business units

Aegon received EUR 1.5 billion of dividends from its business units during 2013, split between EUR 0.9 billion from the Americas, EUR 0.5 billion from the Netherlands and EUR 0.1 billion from Aegon Asset Management and Central & Eastern Europe. Capital contributions of EUR 0.5 billion were paid to Aegon s operating units, including EUR 0.4 billion to the United Kingdom.

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Results 2014 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	**2014**	2013	%
Net underlying earnings	**1,082**	**1,280**	**(15%)**	**814**	**965**	**(16%)**
Tax on underlying earnings	424	463	(8%)	320	349	(8%)
Underlying earnings before tax by business						
Life & Protection	199	719	(72%)	150	542	(72%)
Fixed annuities	*172*	*215*	*(20%)*	*130*	*162*	*(20%)*
Variable annuities	*671*	*414*	*62%*	*505*	*312*	*62%*
Retail mutual funds	*47*	*33*	*42%*	*35*	*25*	*40%*
Individual Savings & Retirement	891	662	35%	670	499	34%
Employer Solutions & Pensions	381	350	9%	286	263	9%
Canada	30	4	-	23	3	-
Latin America	5	9	(44%)	4	7	(43%)
Underlying earnings before tax	**1,506**	**1,744**	**(14%)**	**1,134**	**1,314**	**(14%)**
Fair value items	(661)	(1,300)	49%	(497)	(980)	49%
Gains / (losses) on investments	113	145	(22%)	85	110	(23%)
Net impairments	27	(58)	-	21	(44)	-
Other income / (charges)	(69)	95	-	(52)	72	-
Run-off businesses	(28)	28	-	(21)	21	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**889**	**655**	**36%**	**669**	**493**	**36%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*4*	*4*	-	*3*	*3*	-
Income tax	(105)	(115)	9%	(79)	(86)	8%
Of which Income tax from certain proportionately consolidated joint ventures	*(4)*	*(4)*	-	*(3)*	*(3)*	-

and associates included in income before tax						
Net income	**784**	**540**	**45%**	**590**	**407**	**45%**
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%
Total gross premiums	**11,074**	**10,584**	**5%**	**8,334**	**7,975**	**5%**
Investment income	4,401	4,473	(2%)	3,312	3,370	(2%)
Fees and commission income	1,974	1,689	17%	1,485	1,273	17%
Other revenues	3	6	(50%)	2	4	(50%)
Total revenues	**17,453**	**16,752**	**4%**	**13,134**	**12,622**	**4%**
Commissions and expenses	4,446	4,394	1%	3,346	3,311	1%
of which operating expenses	1,871	1,911	(2%)	1,408	1,440	(2%)

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

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

	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)	**2014**	2013	%	**2014**	2013	%
Life & Protection	9	11	(18%)	7	8	(13%)
Fixed annuities	*323*	*552*	*(41%)*	*243*	*416*	*(42%)*
Variable annuities	*10,235*	*8,496*	*20%*	*7,702*	*6,402*	*20%*
Retail mutual funds	*4,879*	*4,301*	*13%*	*3,672*	*3,241*	*13%*
Individual Savings & Retirement	15,437	13,349	16%	11,617	10,058	16%
Employer Solutions & Pensions	26,736	24,222	10%	20,121	18,251	10%
Canada	121	125	(3%)	91	94	(3%)
Latin America	18	18	-	14	14	-
Total gross deposits	**42,321**	**37,725**	**12%**	**31,849**	**28,424**	**12%**

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

Results 2014 Americas

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

Net income

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

Underlying earnings before tax

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

- Underlying earnings before tax from Life & Protection decreased 72% compared to 2013 to USD 199 million as growth from the business was more than offset by the negative impact of assumption changes and model updates (USD 400 million), unfavorable mortality and the impact of lower interest rates. The actuarial assumption updates were primarily related to updated mortality assumptions for the older ages. The model updates were primarily related to changes to modeled premium persistency.
- Individual Savings & Retirement underlying earnings before tax increased 35% to USD 891 million compared to 2013. Higher underlying earnings before tax from variable annuities and mutual funds more than offset lower underlying earnings before tax from fixed annuities. Underlying earnings before tax from variable annuities were up 62% to USD 671 million compared to 2013, resulting from the positive impact from

actuarial assumption changes and model update of USD 174 million. Excluding this benefit, underlying earnings before tax were up due to higher fee income from higher account balances. Underlying earnings before tax from mutual funds increased 42% to USD 47 million compared to 2013, primarily driven by higher net inflows and favorable markets. Underlying earnings before tax from fixed annuities was down 20% to USD 172 million compared to 2013 as the product is no longer being actively sold. Furthermore, underlying earnings before tax from fixed annuities was adversely impacted by assumption changes amounting to USD 39 million.

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

Commissions and expenses

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

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.

Results 2013 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2013	2012	%	2013	2012	%
Net underlying earnings	**1,280**	**1,228**	**4%**	**965**	**956**	**1%**
Tax on underlying earnings	463	435	7%	349	338	3%
Underlying earnings before tax by business						
Life & Protection	719	697	3%	542	542	0%
Fixed annuities	*215*	*257*	*(16%)*	*162*	*200*	*(19%)*
Variable annuities	*414*	*321*	*29%*	*312*	*250*	*25%*
Retail mutual funds	*33*	*25*	*32%*	*25*	*19*	*32%*
Individual Savings & Retirement	662	603	10%	499	469	6%
Employer Solutions & Pensions	350	319	10%	263	248	6%
Canada	4	32	(88%)	3	26	(88%)
Latin America	9	12	(25%)	7	9	(22%)
Underlying earnings before tax	**1,744**	**1,663**	**5%**	**1,314**	**1,294**	**2%**
Fair value items	(1,300)	(85)	-	(980)	(67)	-
Gains / (losses) on investments	145	238	(39%)	110	186	(41%)
Net impairments	(58)	(151)	62%	(44)	(117)	62%
Other income / (charges)	95	(37)	-	72	(28)	-
Run-off businesses	28	19	47%	21	14	50%
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**655**	**1,647**	**(60%)**	**493**	**1,282**	**(62%)**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	4	4	-	3	3	-
Income tax	(115)	(322)	64%	(86)	(251)	66%
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(4)*	*(4)*	-	*(3)*	*(3)*	-
Net income	**540**	**1,325**	**(59%)**	**407**	**1,031**	**(61%)**
Life insurance gross premiums	8,212	8,405	(2%)	6,187	6,541	(5%)
Accident and health insurance	2,372	2,356	1%	1,787	1,833	(3%)

premiums						
Total gross premiums	**10,584**	**10,761**	**(2%)**	**7,975**	**8,374**	**(5%)**
Investment income	4,473	4,694	(5%)	3,370	3,654	(8%)
Fees and commission income	1,689	1,512	12%	1,273	1,177	8%
Other revenues	6	6	-	4	5	(20%)
Total revenues	**16,752**	**16,973**	**(1%)**	**12,622**	**13,210**	**(4%)**
Commissions and expenses	4,394	4,319	2%	3,311	3,362	(2%)
of which operating expenses	1,911	1,823	5%	1,440	1,419	1%

New life sales	Amounts in USD millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
Life & Protection	505	563	(10%)	380	438	(13%)
Canada	68	60	13%	51	47	9%
Latin America	42	45	(7%)	32	35	(9%)
Total recurring plus 1/10 single	**615**	**668**	**(8%)**	**464**	**520**	**(11%)**

	Amounts in USD millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
New premium production accident and health insurance	902	905	-	680	705	(4%)

Gross deposits (on and off balance)	Amounts in USD millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
Life & Protection	11	12	(8%)	8	9	(11%)
Fixed annuities	*552*	*371*	*49%*	*416*	*289*	*44%*
Variable annuities	*8,496*	*5,350*	*59%*	*6,402*	*4,163*	*54%*
Retail mutual funds	*4,301*	*3,437*	*25%*	*3,241*	*2,675*	*21%*
Individual Savings & Retirement	13,349	9,158	46%	10,058	7,127	41%
Employer Solutions & Pensions	24,222	25,383	(5%)	18,251	19,755	(8%)
Canada	125	177	(29%)	94	138	(32%)
Latin America	18	17	6%	14	13	8%
Total gross deposits	**37,725**	**34,747**	**9%**	**28,424**	**27,042**	**5%**

Exchange rates	Weighted average rate		Closing rate as of	
Per 1 EUR	2013	2012	December 31, 2013	December 31, 2012
USD	1.3272	1.2849	1.3780	1.3184
CAD	1.3674	1.2839	1.4641	1.3127

Results 2013 Americas

Net income of USD 540 million for the year 2013 was negatively impacted by long-term economic assumption changes and losses on equity macro hedges, which have been put in place to protect Aegon s capital position. Underlying earnings before tax increased to USD 1,744 million in 2013, mainly driven by higher earnings from variable annuities and pensions. New life sales decreased, primarily due to focus on profitability of universal life products, while gross deposits increased.

Net income

Net income for the Americas decreased to USD 540 million in 2013. Higher underlying earnings, other income as well as lower impairments were more than offset by the increase of the loss on fair value items. Results on fair value items amounted to a loss of USD 1,300 million, which were primarily the result of long-term economic assumption changes of USD 514 million and the loss on equity hedges of USD 804 million, which was primarily caused by rising equity markets. Realized gains on investments amounted to USD 145 million, while impairment charges improved to USD 58 million. Other income was USD 95 million, mainly related to gains of USD 265 million on the recapture of certain reinsurance contracts being partly offset by increased accruals of USD 94 million in connection with the Company s use of the U.S. Social Security Administration s death master-file and restructuring charges of USD 48 million.

Underlying earnings before tax

2013 underlying earnings before tax increased 5% to USD 1,744 million as higher earnings in variable annuities and pensions from business growth and favorable equity markets more than offset lower earnings in fixed annuities.

- Life & Protection underlying earnings before tax increased 3% to USD 719 million, as growth of the business was partially offset by the negative impact of lower reinvestment rates due to the low interest rate environment.
- Underlying earnings before tax from Individual Savings & Retirement increased 10% to USD 662 million, as higher earnings from variable annuities and mutual funds more than offset lower earnings from fixed annuities. Earnings from variable annuities were up 29% to USD 414 million, primarily driven by higher net inflows and favorable equity markets. Earnings from mutual funds increased 32% to USD 33 million, resulting from growth of the business and favorable markets.
- Employer Solutions & Pensions underlying earnings before tax increased 10% to USD 350 million in 2013, which was primarily the result of strong net pension inflows and favorable equity markets.
- Underlying earnings before tax from Canada decreased to USD 4 million, primarily as a result of actuarial assumption changes and model refinements. In Latin America underlying earnings before tax were down to USD 9 million.

Commissions and expenses

Commissions and expenses increased by 2% to USD 4,394 million in 2013 compared with 2012. Operating expenses increased by 5%, to USD 1,911 million, primarily the result of higher sales and employee performance related expenses, investments to expand Aegon s digital capabilities and restructuring costs.

Production

New life sales decreased 8% to USD 615 million in 2013, as lower universal life sales due to product withdrawals and product redesign were only partly offset by higher sales of term life products. New premium production for accident & health insurance was stable compared to 2012 and amounted to USD 902 million. This was the result of strong sales of the Medicare part D prescription plan product, which was introduced in 2012, being offset by the loss of two distribution partners for travel insurance and the termination of certain affinity marketing partnerships.

Gross deposits increased 9% to USD 37.7 billion in 2013. Gross deposits in variable annuities, retail mutual funds and retirement plans were all higher than in 2012. Variable annuities gross deposits were up 59% to USD 8.5 billion in 2013, which was primarily driven by Aegon s continued focus on key distribution partners. The increase in retirement plan deposits was driven by plan takeover deposits and focusing on retirement readiness by growing customer participation and contributions.

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[1] life insurance organizations in the United States, and the largest of Aegon s operating units worldwide. It administers millions of policies and employs almost 10,000 people. Many of the Aegon USA s companies operate under the Transamerica brand, one of the best known names[2] in the United States insurance business. Its companies have existed since the mid-19th century, and its main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland with affiliated companies offices located throughout the United States.

Through these subsidiaries and affiliated companies, Aegon USA provides a wide range of life insurance, 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 has long-standing relations with banks across the United States, and also distributes products and services through agents, broker-dealers, Registered Representatives (RR), 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, 2014, Aegon Brazil had approximately 500 employees.

Aegon Mexico

In 2006, Aegon acquired a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. As of December 31, 2014, Aegon Mexico had approximately 25 employees. Aegon has entered into a joint venture with Adminstradora 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 startup process and will initially focus on third-party asset management.

Aegon Canada

On October 16, 2014, Aegon announced that it reached a decision to sell its Canadian operations to Wilton Re, subject to regulatory approval. 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. As of December 31, 2014, Aegon Canada had approximately 550 employees.

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. 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;
¿ Stonebridge Life Insurance Company; and
¿ Transamerica Casualty Insurance Company.

In 2014, Aegon s subsidiary companies in the United States contained three divisions operating through one or more of the Aegon USA life insurance companies:

¿ Life & Protection;
¿ Individual Savings & Retirement;
¿ Employer Solutions & Pensions.

In July 2014, Aegon announced that it was combining the Individual Savings & Retirement and Employer Solutions & Pensions divisions into one single division called Investments & Retirement . The transition was finalized in the second half of 2014 and consolidated financial reporting for the new division began January 1, 2015. For this reason, Aegon s 2014 Annual Report reflects the financial results of the two former divisions.

These divisions, described in greater detail below, represent groups of products and services that Aegon USA s operating companies sell 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.

1 Source: LIMRA.
2 Source: Brand Power Analysis.

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;
- Regional and independent broker-dealers;
- Registered Representatives (RR);
- Third-party administrators (TPAs);
- Wirehouses; and
- Worksite.

In addition, Aegon USA provides a range of online products and services, together with using direct and worksite marketing. 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 corporations.

Aegon Canada

Transamerica Life Canada (TLC) provides life insurance and other protection products to Canadian consumers. By working through a variety of distribution channels, TLC has acquired a national network of thousands of independent advisors. These advisors provide middle market Canadians with individual life insurance and protection products. Canadian Premier offers simplified life, group creditor and accident and sickness coverage. Distribution channels include:

- Agencies owned by Transamerica Life Canada;
- Bank and credit union affinity partners;
- Bank-owned national broker-dealers and mutual fund dealers;
- Independent and career agents; and
- Independent managing general agencies.

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 directly or through independent agents, career agents, the worksite, or affinity groups.

Products

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

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 the low-cost protection of term life insurance as well as a savings element, which is invested to provide a cash value buildup. The death benefit, savings element and premiums can be reviewed and altered as a policyholder s circumstances change. A version of this product has secondary guarantees, which guarantee continuation of the life insurance if the customer consistently pays an agreed minimum amount of premium each year.

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 may be changed by the consumer as required, 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 rate of return over a normal 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 of 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 s 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 the 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.

Other life insurance

Life products also include life insurance sold as part of defined benefit pension plans, single premium products, and additional optional benefits.

Supplemental health and specialty insurance

Supplemental health insurance products are sold through affinity relationships and licensed agents, and directly to consumers. Products include accidental death, other injury, critical illness, hospital indemnity, Medicare supplement, Medicare Part D, retiree medical and student health. Specialty insurance lines include travel and creditor (installment, mortgage or guaranteed auto protection) products.

Long-term care insurance

Long-term care (LTC) insurance products provide benefits to policyholders that require care due to a 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 a family better manage the financial, health and safety issues that are associated with LTC.

Sales and distribution

The L&P division is organized by distribution channel to better align with consumers. 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: affinity, agency, brokerage and worksite.

Affinity

The affinity group markets to members/customers under the endorsement of affinity relationships such as associations, employers, financial institutions, retailers and other sponsor groups. Life, supplemental health and specialty accident products are offered through a variety of direct response marketing channels.

Agency

The agency groups include independent and career agents, World Financial Group and a registered independent broker/dealer/ investment advisor. These channels provide life insurance (term life, universal life, variable and indexed universal life and whole life), long-term care and supplemental health products to the middle market. The broker/dealer offers financial products and services that help clients create and protect wealth.

Brokerage

The brokerage group offers life and long-term care insurance products and services through independent brokerage distributors and financial institutions to affluent, emerging affluent and middle income individuals, families and businesses. These products are designed for family protection, business needs, and estate and legacy planning.

Worksite

The L&P division is active in the worksite market via Transamerica Employee Benefits (TEB). TEB offers life and supplemental health insurance products through employers, labor unions and trade associations. TEB s comprehensive portfolio includes

universal life, whole life and term life insurance, in addition to accident, critical illness, cancer, hospital indemnity, medical expense indemnity, short-term disability, and dental policies. A number of these products provide insureds with lump sum or specified income payments if hospitalized, disabled or diagnosed with a critical illness. Others pay benefits for specific medical expenses and treatments, or cover deductibles, co-payments and co-insurance amounts not covered by other health insurance. In addition, TEB offers stop-loss insurance to employers to protect against catastrophic losses under self-funded health plans.

Direct to consumer

Transamerica Direct is the business unit that directly targets both broad market and strategic segments via multiple channel touch points and the newest technologies, in order to provide new and existing customers with easy access to the insurance, investment and retirement solutions they want.

Investments & Retirement

The operations of two former divisions, Individual Savings & Retirement and Employer Solutions & Pensions, merged on July 1, 2014. Individual Savings & Retirement focused on the individual investor in mutual funds and variable and fixed annuities, while Employer Solutions & Pensions primarily served the employer market with retirement plan products and services. Together, they offer a wide range of investment solutions to serve customers to and through retirement first, as they accumulate assets, and second, as they manage them to generate retirement income.

Individual markets

Through its insurance companies, broker-dealers and investment advisors, Aegon USA offers a wide range of savings and retirement products and services for individual investors, including mutual funds and variable and fixed annuities. The Investments & Retirement (I&R) division administers and distributes these products through a variety of channels, including wirehouse firms, banks, regional broker-dealers, independent financial planners, and direct to consumer.

Products

Aegon USA s fee-based business comprises asset management and insurance products that generate fee income by providing investment management, administrative or risk transfer services. In general, fee income is sensitive to withdrawals and equity market movements.

Aegon USA s operations provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts, and asset allocation services.

The operations in the United States provide fund managers with oversight for the Transamerica mutual funds. Aegon USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on a number of qualitative and quantitative factors.

Mutual funds

Transamerica Asset Management (TAM) is a sub-advised or manager of managers fund platform. Fund managers can include those affiliated with Transamerica. TAM earns investment management fees on investment products managed by these affiliated and unaffiliated sub-advisors. TAM pays these affiliated and unaffiliated sub-advisors a fee.

Variable annuities

Variable annuities are sold to individuals and retirement plans in the United States. Variable annuities allow policyholders to accumulate assets for retirement on a tax-deferred basis, and to participate in equity or bond market performance. Variable annuities allow policyholders to select payout options designed to help meet their need for income upon maturity, including lump sum payment, or income for a fixed period or life. Variable annuities have a maturity date at which benefits must be used, or the contract surrenders. This date usually corresponds to the annuitant s age, with a maximum age of 99 years.

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds, and types of asset-allocation funds. A fixed interest account is available on most products, and the underlying funds are selected by the policyholder within certain boundaries based on his or her preferred level of risk. The vast majority of assets and liabilities related to this product are legally segregated in separate accounts of the insurance company for the benefit of variable annuity policyholders. These separate accounts are classified as investments for the account of policyholders on Aegon s statement of financial position. Variable annuity contracts contain riders, such as guaranteed minimum death, maturity, withdrawal, accumulation or income benefits.

The account value of variable annuities reflects the performance of the underlying funds. Aegon USA earns mortality and expense charges, in addition to various types of rider fees, for providing guarantees and benefits. In general, surrender charges are not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty remains. Collected surrender charges are typically used to recoup unamortized deferred acquisition costs.

A guaranteed minimum withdrawal benefit is offered on a number of variable annuity products that Aegon USA has either issued or assumed from a ceding company. This benefit guarantees that a policyholder may withdraw a certain percentage of the income base, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable annuity contracts also provide guaranteed minimum death benefits and guaranteed minimum income

benefits. Under a guaranteed minimum death benefit, upon the death of the insured the beneficiaries receive either the account balance or the guaranteed amount upon the death of the insured depending on which is greater. The guaranteed minimum income benefit feature, which has not been offered on new business since 2003, provides for minimum payments if the policyholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the policyholder, less any withdrawals, and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value.

These guaranteed benefits subject the Company to interest rate risk, market risk, and policyholder behavior risk. Poor market performance may cause the guaranteed benefits to exceed the policyholder account value.

Aegon USA addresses equity market, interest rate and market volatility risks through product design, including robust analysis of the underlying funds allowed within a product, and by using hedging strategies. Variable annuity products also contain policyholder behavior risk, mortality risk, and in the case of income riders, longevity risks, which are handled similarly to those in fixed annuities.

Fixed annuities

Fixed annuities include deferred annuities, fixed index annuities, and immediate annuities. These product lines have been de-emphasized due to the low interest rate environment. A fixed annuity exposes Aegon to interest rate risk, in addition to behavior and mortality risk. The insurer s interest rate risk may be mitigated through product design, close Asset Liability Management (ALM) and hedging, although the effects of policyholder behavior cannot be fully mitigated. Immediate annuities have lower behavior risks than deferred annuities, but contain interest rate risk, and longevity risk if annuity payments are life contingent.

Income from fixed annuities is generated by spread on investment earnings over the credited rate, policy fees if applicable, and surrender charges. Fees and surrender charges are not a large source of revenue on fixed annuities.

An immediate annuity is purchased with a single lump sum premium payment, and the benefit payments generally begin within a year of purchase. The benefit payment period may be for a fixed period, for as long as the beneficiary is alive, or for a combination of the two. Some immediate annuities and payout options under deferred annuities also offer the owner or beneficiaries the option to surrender the annuity to have access to the account value if needed for unexpected events.

The policyholder may surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed annuities have a specified crediting rate that may be reset periodically at the Company s discretion after an initial guarantee period. Fixed annuity contracts in the United States also offer guaranteed minimum surrender values and payout options. Fixed annuities have a maturity date at which benefits must be used, or the contract surrendered. This date normally corresponds to the annuitant s age, up to a maximum of 95 years. Upon maturity of the annuity, the policyholder s payout options include a lump sum payment, income for life, or payment for a specified period of time.

Minimum interest rate guarantees exist in all generations of fixed annuity products, as they are required by state non-forfeiture regulations. The average minimum interest rate guarantees and the average current credited rate of the in-force fixed annuity block are approximately 2.62% and 2.92% respectively (as of the fourth quarter 2014). Equity indexed annuities offer additional returns that are index-linked to published stock market indices and proprietary indices, with a minimum cash value equal to a percentage of the premium increased at a minimum fixed or variable rate. Equity indexed annuities make up a small fraction of the in-force business. Certain fixed annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders may surrender their contracts without incurring any surrender charges.

Sales and distribution

Aegon USA underwrites fixed and variable annuities through its various life insurance companies. Transamerica Capital Inc. (TCI), the underwriting and wholesaling broker-dealer, distributes variable annuities and mutual funds through major wirehouse firms, regional broker-dealers, and a large bank network. TCI serves these distribution channels through affiliated and external wholesalers.

From late 2009, Aegon USA reduced its sales of fixed annuities in response to lower market interest rates and lower investment returns. Similar market conditions continue to restrict sales of fixed annuities and, as a result, Aegon USA has de-emphasized their sale.

Transamerica Financial Advisors (TFA) provides a range of financial and investment products, operating as a retail broker-dealer registered with the Financial Industry Regulatory Authority (FINRA) and an investment advisor registered with the Securities and Exchange Commission (SEC). Products offered by TFA include mutual funds, variable life insurance, variable annuities and other securities.

Employer market

Aegon USA offers retirement plans, pension plans, and pension-related products and services to employers, in addition to step-by-step guidance to people that are transitioning to, or living in, retirement related to five key areas: lifestyle, investments, health care, protection and income.

Aegon USA covers a range of different retirement plans, including:

¿ 401(k) - a type of deferred compensation plan sponsored by a corporation (including subchapter S), self-employed individual, sole proprietorship, partnership or non-profit organization;
¿ 403(b) - a type of deferred compensation plan for certain employees of tax-exempt organizations and certain members of the clergy;

- 457(b) - a type of deferred compensation plan sponsored by governmental and certain non-governmental employers in the United States;
- Deferred compensation plan - a plan or agreement that defers the payment of a portion of the employee s compensation to a future date, and that may also include a contribution made by the employer for the employee s benefit;
- Defined benefit - a pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee s earnings history, tenure of service and age;
- Defined contribution - a plan in which the contributions made to the plan by the employee and/or employer are allocated to the employee s individual account under the plan. Examples of defined contribution plans include 401(k) plans, 403(b) plans, 457(b) plans, money purchase plans and profit-sharing plans; and
- Profit-sharing - a type of defined contribution plan in which the employer may make a contribution, on behalf of the plan participants, to the plan each year, either out of the company s profits or from otherwise.

Products

Retirement plans

Transamerica Retirement Solutions is a leading provider of retirement plans in both the institutional market (mid- to large-sized organizations) and the emerging market (small US employers).

In the institutional market, Transamerica Retirement Solutions offers a wide array of investment options designed to create a fully customized investment line-up for clients, and a personalized retirement funding strategy for their retirement plan participants. Transamerica Retirement Solutions open architecture investment platform provides access to a broad range of investment options, including institutional and retail mutual funds, registered or non-registered variable annuities, and a collective investment trust. The investment options offered in each plan are selected by the client or the client s financial advisor.

In the emerging market, Transamerica Retirement Solutions offers fully bundled and partially bundled retirement plan solutions to small and mid-sized employers. These plans are predominantly supported by a group variable annuity product, where plan assets are invested primarily in separate account investment choices, including bond and equity investment choices, and cash equivalent choices. A fixed account cash vehicle may also be available on most plans. The investment choices are selected by the client or by the client s financial advisor.

Single premium group annuities

Single premium group annuities (Terminal Funding) is a non-participating group annuity product. This product is commonly used for an insurance company takeover of a terminating defined benefit pension plan. The Company receives a single deposit from the contract holder and in return guarantees the payment of benefits to participants. Usually these annuity payments are paid monthly for the life of the participant or participant and spouse, commencing immediately for retired participants or at some date in the future for deferred participants.

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.

Sales and distribution

Transamerica Retirement Solutions provides a comprehensive and customized approach to retirement plan management for mid- to large-sized defined contribution, defined benefit and non-qualified deferred compensation retirement plans. Transamerica Retirement Solutions institutional market clients are generally organizations with 250 to 100,000 employees, and between USD 20 million and USD 2 billion in retirement assets.

Transamerica Retirement Solutions retirement plan products and services are distributed through intermediaries such as retirement plan advisors, benefit consultants, and financial planners. Transamerica Retirement Solutions works closely with strategic alliance relationships and more broadly with many broker-dealers.

Transamerica Retirement Solutions also offers single premium group annuities in the United States, which are used by companies to decrease the liability of their defined benefit plans. The market is growing in this segment as more employers look to reduce the cost and complexity of their pension liabilities, often driven by widespread economic and sector restructuring.

For those individual plan participants who are in transition due to losing or changing jobs, or planned retirement, Transamerica Retirement Solutions provides personal retirement services by telephone through a team of experienced registered representatives and investment advisors. In addition, Transamerica Retirement Solutions provides pre-retirees guidance and support to transition to and through retirement. Transamerica Retirement Solutions offers a variety of solutions, including Individual Retirement Accounts (IRAs), advisory services, annuities and access to other insurance related products and resources. Each plan for retirement can be tailored to the goals and needs of the individual.

Latin America

Aegon s business in Latin America comprises a 50% interest in Mongeral Aegon Seguros e Previdência S.A., a Brazilian independent life insurer, and a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. Mongeral Aegon s insurance activities include pension product distribution, individual and group life insurance products, and administrative services. Seguros Argos s primary product is a 20-year term life insurance product. Both insurance companies distribute their products in the worksite market. Aegon is also a 50% owner of a joint venture with Adminstradora 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 startup 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).

Guaranteed investment contracts and funding agreements

GICs were generally issued to tax qualified plans, while FAs and MTNs were typically issued to non-tax qualified institutional investors.

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. Some spread products were issued by pledging selling with the intent to repurchase or lending investment securities that serve as collateral for these products. Practically all of the liabilities represented by the fixed-rate contracts were effectively converted to a floating-rate via swap agreements, and contracts issued in foreign currencies were converted at issuance to US dollars through swap agreements to eliminate currency risk. Credited interest on floating-rate contracts normally resets on a monthly basis to various market indices. The term of the contract may be fixed generally from six months to ten years or have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a published index designated in the contract. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate.

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.

Payout annuities

Payout annuities are a form of immediate annuity. Aegon USA has since 2003 no longer issued these contracts, but continues to administer the closed block of business. These contracts were typically purchased as a result of a lawsuit or claim, with the injured party receiving special tax treatment. Rather than paying the injured party a lump sum, the payments were structured as a lifetime annuity with mortality risk, a period certain annuity, or a combination of both.

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 institutional customers fund long-term employee benefits such as executive compensation and post-retirement medical plans. The corporation insures key employees, and is the owner and beneficiary of the policies. New sales of BOLI/COLI were discontinued in 2010.

Clark Consulting specializes in the servicing and administration of bank-owned life insurance. Clark Consulting s relationships and service model help maintain strong persistency for the block of business.

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 mainly variable annuity guarantee business.

Competition

Competitors of Aegon Americas companies include other large and highly-rated 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 401(k) products.

In the United States, the Life & Protection division faces competition from a variety of carriers. Leading competitors include AIG, Genworth, John Hancock, Lincoln National, MetLife, and Prudential. In Canada, the primary competitors are Industrial-Alliance, Manulife Financial, Power Corporation (comprising Canada Life, Great West

Life, London Life), and Sun Life Financial. The result is a highly competitive marketplace and increasing commoditization in many product categories.

Aegon USA markets variable universal life, mutual funds, and variable annuities to middle-income clients with equity investment objectives. Variable annuity sales are often driven by the competitiveness of the living benefits offered by competitors, with most product development focusing on guaranteed lifetime withdrawal benefits, which guarantee lifetime withdrawals of a certain amount under certain conditions. There is continued interest, and strong competition among providers, in guaranteed lifetime withdrawal products. Aegon USA competes in the variable annuity marketplace. It maintains an effective wholesaling force, and focuses on strategic business relationships and products with competitive features, benefits and pricing. Aegon USA s primary competitors in the variable annuity market are AIG, Jackson National, Lincoln National, MetLife, Nationwide, and Prudential.

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

The retirement plan market continues to evolve rapidly and is facing growing regulatory compliance pressures, continuing demand for technological innovation, pricing pressures, and provider consolidation. Aegon USA s ability to achieve greater economies of scale in operations will be assisted by continued growth in key market segments, technology improvements, and process management efficiency.

In the defined contribution market, Aegon USA s main competitors are Fidelity, Mass Mutual, New York Life, Principal Financial, 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. In the emerging market segment and the multiple employer plan segment, Aegon USA s main competitors are American Funds, Fidelity, ING, John Hancock, and Principal Financial. In the single premium group annuity market, Aegon USA s main competitors are John Hancock, Mass Mutual, MetLife, Mutual of Omaha, and Prudential.

Regulation and supervision

Aegon USA

Aegon USA s insurance companies are subject to regulation and supervision in the states and jurisdictions in which they transact business, maintain offices or otherwise have a business presence. Regulators in each of those states and jurisdictions have broad powers to grant or revoke licenses to transact business, regulate trade and marketing practices, license agents, approve policy forms and certain premium rates, set reserve and capital requirements, determine the form and content of required financial reports, examine the insurance companies, prescribe the type and amount of investments permitted, levy fines and seek restitution, fines, sanctions or other monetary penalties for failure to comply with applicable regulations. The international businesses of Aegon USA are governed by the laws and regulations of the countries in which they transact business, maintain offices or otherwise have a business presence.

Insurance companies are subject to a mandatory audit every three to five years by their domestic state insurance departments, and every year by their independent auditors. In addition, examinations by non-domestic state insurance departments are conducted, on a targeted, random or cyclical basis. Some state Attorneys General have also commenced investigations into a number of insurers business practices. Within the insurance industry, substantial liability has been incurred by insurance companies based on their past sales, marketing and operational practices. Aegon USA continues to focus on these compliance issues, and costs may increase as a result of these regulatory activities.

State insurance regulators have risk-based capital (RBC) standards for life insurance companies, established by the National Association of Insurance Commissioners (NAIC). The RBC Model Act (Model Act) provides for various actions should an insurer s adjusted capital, based on statutory accounting principles, fall below certain prescribed levels (defined in terms of its risk-based capital). The adjusted capital levels of the Aegon USA insurance companies currently exceed all of the regulatory action levels as defined by the Model Act. Any modification of these adjusted capital levels by the regulators or rating agency capital models may impact Aegon USA. The statutory accounting (reserve) requirements for term and universal life products are widely acknowledged to be very conservative. These continue to cause capital strain for the life insurance industry and, in volatile market conditions, funding for these reserves is challenging.

In 2010, the NAIC amended its Insurance Holding Company System Regulatory (Holding Company) Act to enhance disclosure to regulators about risk exposure insurer s face from within their holding company system. Pre-existing insurance holding company statutes and the regulations of each insurer s domiciliary state in the United States already impose various limitations on investments in affiliates, and require prior approval of the payment of dividends above certain threshold levels by the licensed insurer to Aegon or its affiliates. The 2010 revisions to the Holding Company Act also authorized supervisory colleges, and at the end of 2014 the NAIC added a framework in that model for determining the group-wide supervisor of internationally active insurance groups. In response to international developments, the NAIC also passed a new Own

Risk and Solvency Protection Model Act and Guidance Manual, to come into effect in 2015. The NAIC passed a revised Model Standard Valuation Law (SVL) and Valuation Manual, which together established Principles-Based Reserving (PBR) in 2012. 20 states, including Iowa, had passed the SVL as of the end of 2014. As adoption by a supermajority of states is required for PBR to be effective in any state, the effective date of PBR is expected to be 2016 or later. The NAIC adopted a conceptual framework for regulation of captives in 2014. The final changes to the use of captives on the Company cannot be predicted at this time. NAIC also passed a new model on corporate governance standards in late 2014.

Although historically the federal government of the United States has not regulated the insurance business, many federal laws impact the insurance business in a variety of ways. US federal and state privacy laws and regulations impose restrictions on financial institutions use, disclosure, and security of customer information, including obligations in the event of data security breaches. Congress is considering proposals intended to assist in combating cyber-threats. Proposals designed to assist the federal government in combating cyber-threats could impose additional obligations on companies to provide information relative to the effort. At this time, it is uncertain what impact, if any, these proposals may have on insurers.

In addition to the US Congress, non-traditional insurance regulators are increasingly involved in insurance matters traditionally reserved for state regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in 2010, established the Federal Insurance Office (FIO). While the FIO has no direct regulatory authority over US insurers, it does have certain authority to represent the US government in establishing international regulatory standards for insurers, and to represent the US insurance industry in international matters. The FIO is also authorized to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry.

The Dodd-Frank Act has entrusted to the Board of Governors of the Federal Reserve Board (the Federal Reserve) a significant regulatory role with respect to life insurers that are either designated as systemically significant (SIFIs) or have a bank within the group. The Federal Reserve is responsible for prudential supervision of SIFIs, including development of enhanced capital standards for insurer SIFIs. In late 2014, the Insurance Capital Standards Act was enacted. This provides the Federal Reserve with the authority to develop insurance-centric capital standards for insurer SIFIs. Finally, the International Association of Insurance Supervisors (IAIS), which includes the Federal Reserve, FIO and representatives of state regulators, is developing international capital and supervisory standards for internationally active insurance groups (IAIGs), such as Aegon. The extent to which these developments or the activities of the

FIO and the Federal Reserve will impact Aegon USA and the regulation of insurance in the United States, or life insurers in the United States or internationally, is still to be determined.

Federal laws and the rules of the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) prohibit telephone solicitations to customers who have placed their telephone numbers on the National Do Not Call Registry. In addition, proposals to place restrictions on direct mail are considered from time to time by the US Congress and states. These existing restrictions have an adverse impact on the telemarketing efforts of Aegon USA, and new proposals, if enacted, will likely have a further impact on mail efforts. Proposed Federal Reserve Board disclosures regarding credit insurance provided in connection with a loan, if enacted as proposed, would adversely impact the market for credit insurance.

Many supplemental health insurance products offered by the Aegon USA companies, such as Medigap, are subject to both federal and state regulation as health insurance. The Patient Protection and Affordable Care Act (PPACA), enacted in 2011, significantly changes the regulation of health insurance and delivery of health care in the United States, including in certain respects, the regulation and delivery of supplemental health insurance products. Individual states are required to establish health care exchanges for the purchase of health care insurance by individuals. The extent to which employers may discontinue their provision of supplemental health insurance products to retired employees and the extent to which supplemental health insurance products may be sold through state exchanges may significantly impact Aegon USA s supplemental health products business. In implementing PPACA, several states are considering tax assessments on supplemental health insurance products to help finance the state exchange. The American Council of Life Insurers (ACLI) is litigating the District of Columbia s attempt to introduce such an assessment. There is no assurance that the ACLI will be successful in its challenge or that other states will not seek to institute similar tax assessments.

Furthermore, certain policies and contracts offered by Aegon USA s insurance companies are subject to regulation under the federal securities laws administered by the Securities and Exchange Commission (SEC) and certain state securities laws. The SEC conducts regular examinations of the insurance companies variable life insurance and variable annuity operations, and on occasion makes requests for information from these insurers in connection with examinations of affiliate and third-party broker-dealers, investment advisors and investment companies. The SEC and other governmental regulatory authorities, including state securities administrators, may institute administrative or judicial proceedings that may result in censure, fines, issuance of cease-and-desist orders, or other sanctions against insurance companies or their distributors.

Sales of variable insurance and annuity products are regulated by the SEC and the Financial Industry Regulatory Authority (FINRA). The SEC, the FINRA and other regulators have from time to time investigated certain sales practices involving variable annuities and transactions in which an existing variable annuity is replaced by, or exchanged for, another annuity. Certain separate accounts of Aegon USA insurers are registered as investment companies under the Investment Company Act of 1940, as amended (the Investment Company Act). Separate account interests under certain annuity contracts and insurance policies issued by the insurance companies are also registered under the Securities Act of 1933, as amended (the Securities Act). Aegon USA insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions.

A number of Aegon USA companies are registered as broker-dealers with the SEC under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act), and are regulated by the FINRA. A number of Aegon USA companies are also registered as investment advisors under the Investment Advisers Act of 1940. In accordance with Dodd-Frank Act requirements, 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. The SEC has solicited comments on the costs and benefits of regulations to establish a harmonized standard of care. It has not, however, set a date for proposal of those regulations. Legislation has been proposed in prior congresses that would establish a self-regulatory organization for the examination of investment advisors although no action was taken on the legislation. 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 cannot be predicted at this time.

The financial services industry which includes businesses engaged in issuing, administering, and selling fixed and variable insurance products, mutual funds, and other securities, and also includes broker-dealers continues to operate under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, suitability of sales (especially to seniors), selling practices, unclaimed property reporting, revenue sharing, and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. Aegon USA s companies, like other businesses in the financial services industry, have received inquiries, examinations, and requests for information from regulators and others 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 companies continue to cooperate with these regulatory agencies. In certain instances, Aegon USA companies 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. Since the early 2000s, there has been an increase in litigation across the industry, together with new legislation, regulations, and regulatory initiatives, all aimed at curbing alleged improper annuity sales to seniors. As many of the estimated 78 million baby boomers are reaching the age of 60, the industry will likely see an increase in senior issues presented in various legal arenas. In addition, certain industry practices in respect of market conduct have been the subject of investigations by various state regulators. Management expects any significant marketplace volatility to drive further regulation and litigation, which could increase costs and limit Aegon USA s ability to operate.

Some Aegon USA companies offer products and services to individual retirement accounts (IRAs) pension and welfare benefit plans that are subject to the federal Employment Retirement Income Security Act (ERISA). ERISA is administered by the US Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction to regulate the products and services sold by these Aegon USA businesses. The DOL has issued regulations defining the nature of fees to be paid for investment advice in these plans, in addition to requiring increased fee disclosure from defined contribution plan service providers and to plan participants. The DOL has indicated that it will re-propose regulations regarding the scope of an investment advice fiduciary in IRAs and defined contribution plans, and the consequent ability of service providers to IRAs and defined contribution plans to provide investment advice under current compensation models, in addition to further define the nature of a plan sponsor s obligations regarding certain plan participants investment options selected through a plan s brokerage window. Implementation of these and other regulations in the manner proposed could increase the cost and administrative burdens experienced by those Aegon USA companies that provide services to and through IRAs and defined contribution plans.

Finally, both the US Treasury Department and the DOL have published, in final and proposed forms respectively, guidance to facilitate the offering of guaranteed lifetime income products

(for example annuities), both as an investment option in a retirement savings plan or as a distribution from that plan. US federal legislation has also been proposed that is designed to increase savings in employer retirement plans and to facilitate managing those retirement savings as income in retirement through annuities. The likelihood that these legislative proposals will be passed or the regulatory guidance finalized cannot be predicted at this time. The proposed legislation and guidance, if enacted and finalized as proposed, would however increase the awareness of the benefits of annuitization and/or would significantly reduce the administrative burden of offering annuities within a retirement savings plan or as a distribution option from the plan.

In an attempt to increase the number of workers covered by a retirement savings plan, California has enacted legislation that would permit non-governmental workers to join the state government workers retirement plan or a similar governmental plan. Certain steps must be taken, however, before the legislation can be implemented. Several other states are considering similar legislation. The opening of state retirement plans to non-governmental workers could impact the products and services sold by some Aegon USA companies to private employers in those states.

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 annual budget for the US federal government and set forth in discussion drafts and whitepapers on comprehensive federal tax reform legislation. 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.

Regulations announced under the Dodd-Frank Act that limit investment by banks in certain financial services products or increase the cost of issuing certain life insurance products would have an adverse impact on the sale of life insurance products. In particular, the market for stable value products sold to defined contribution plans, in addition to other insurance products, would be adversely affected if it were decided that these products should be regulated as derivatives. Finally, regulations under recently enacted legislation that would limit the ability of an insurer to access the US Social Security Administration s death master-file records would adversely impact the efficient administration of its life insurance policies.

There have also been occasional legislative proposals in the US Congress that adversely impacted foreign-owned companies, such as proposals containing a corporate residency provision that would redefine some historically foreign-based companies as US corporations for US tax purposes, and proposals that limit the deductibility of interest on debt paid to a non-US affiliate. The likelihood of enactment of any such legislation cannot be predicted with any certainty at this time.

Many details of the Dodd-Frank Act were left to study or regulation. The impact of the Dodd-Frank Act on Aegon USA, or the life insurance market in general, cannot therefore be fully determined until the regulations implementing the Dodd-Frank Act are promulgated and the studies completed. For example, the Dodd-Frank Act established the Federal Stability Oversight Council (FSOC), which is responsible for identifying systemically significant companies that are to be subject to additional oversight and heightened and other prudential standards imposed by the Federal Reserve Board. While Aegon USA has not to date been identified by FSOC as systemically significant, the likelihood of future identification of Aegon USA as systemically significant and/or the impact of any designation of other insurers as systemically significant on the competitive position of Aegon USA cannot be predicted at this time.

Aegon USA companies administer and provide both asset management services and products used to fund defined contribution plans, individual retirement accounts, 529 plans and other savings vehicles. Changes to defined benefit plans by sponsors in reaction to the financial economic environment and the enactment of funding relief provisions may impact the services Aegon USA companies provide to these plans. In addition, legislative and regulatory proposals are considered from time to time that relate to the disclosure and nature of fees paid by defined contribution plan sponsors and their participants. Other proposals that may be considered relate to the nature of education, advice or other services Aegon USA companies provide to defined contribution plan sponsors and their participants. Finally, as noted above, proposals to change the structure, or remove or decrease the US federal tax preferences of pension and annuity products, either as part of tax reform or pursuant to deficit reduction, would directly impact the cost and competitiveness of pension and annuity products and pension services sold to ensure Americans financial and retirement security. Aegon USA companies also provide plans used to administer benefits distributed upon termination of defined benefit plans.

Any proposals that seek to either restrict fees and services to, or investment advice in, employer plans, or change the manner in which Aegon USA companies may charge for such services in a way that is inconsistent with business practices, will adversely impact the Aegon USA companies that provide administration and investment services and products to employment based plans.

Aegon Canada

Transamerica Life Canada (TLC) and Canadian Premier Life (CPL) are organized and regulated pursuant to the federal Insurance Companies Act (Canada). The primary regulator is the Office of the Superintendent of Financial Institutions. In addition, TLC and CPL are subject to the laws, regulations and insurance commissions of each of

Canada s ten provinces and three territories in which it operates. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers that include granting and revoking licenses to conduct business, regulating trade practices, licensing agents, establishing reserve requirements, determining permitted investments, and establishing minimum levels of capital. TLC s ability to continue to conduct its insurance business depends upon the maintenance of its licenses at both the federal and provincial/territorial levels. It is also governed by policy statements and guidelines established by the Canadian Life & Health Insurance Association.

The mutual fund and investment management operations of Aegon Canada are governed by the Securities Acts of each province and territory.

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 s companies manage their 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 into account various forms of management action such as reinvestment and sales decisions, along with spreads and defaults on Aegon s assets, which is not the case in a market consistent framework.

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

Reinsurance ceded

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. To minimize its exposure to the risk of such defaults, the creditworthiness of Aegon s reinsurers is monitored regularly.

Aegon USA

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 both third-party reinsurers under quota share (traditional indemnity) reinsurance treaties, and excess-of-loss contracts. Aegon USA s reinsurance strategy is consistent with typical industry practice.

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

Aegon Canada

In the normal course of business, Transamerica Life Canada reinsures part of its mortality and morbidity risk with third-party reinsurers that are registered with Canada s Office of the Superintendent of Financial Institutions. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

Results 2014 the Netherlands

Amounts in EUR millions	2014	2013	%
Net underlying earnings	**423**	**352**	**20%**
Tax on underlying earnings	135	102	32%
Underlying earnings before tax by business			
Life & Savings	336	247	36%
Pensions	194	206	(6%)
Non-life	13	(20)	-
Distribution	15	18	(17%)
Share in underlying earnings before tax of associates	1	2	(50%)
Underlying earnings before tax	**558**	**454**	**23%**
Fair value items	(766)	(41)	-
Gains / (losses) on investments	431	342	26%
Net impairments	(12)	(32)	63%
Other income / (charges)	(113)	(36)	-
Income before tax	**99**	**687**	**(86%)**
Income tax	(37)	(166)	78%
Net income	**62**	**521**	**(88%)**
Life insurance gross premiums	3,982	3,515	13%
Accident and health insurance premiums	233	243	(4%)
General insurance premiums	501	487	3%
Total gross premiums	**4,716**	**4,245**	**11%**
Investment income	2,568	2,310	11%
Fees and commission income	324	328	(1%)
Total revenues	**7,608**	**6,883**	**11%**
Commissions and expenses	977	990	(1%)
of which operating expenses	726	732	(1%)

New life sales

Amounts in EUR millions	2014	2013	%
Life & Savings	33	40	(18%)
Pensions	218	166	31%
Total recurring plus 1/10 single	**251**	**206**	**22%**

Amounts in EUR million	2014	2013	%

New premium production accident and health insurance	9	24	(61%)
New premium production general insurance	26	26	1%

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

Results 2014 the Netherlands[1]

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

Net income

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

Underlying earnings before tax

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

- ¿ Underlying earnings before tax from Life & Savings increased 36% to EUR 336 million compared with 2013, and were mostly a result of higher investment income, primarily generated by mortgage production, and improved margins on savings. An employee benefit reserve release resulting from legislation changes accounted for EUR 20 million of the increase.
- ¿ Underlying earnings before tax from Pensions decreased 6% to EUR 194 million compared with 2013. The positive impact of growth of the business and an employee benefit reserve release resulting from legislation changes of EUR 14 million was more than offset by lower investment income, mostly due to a reduced mortgage allocation to the investment portfolio.
- ¿ Non-life underlying earnings before tax improved to EUR 13 million in 2014, including the impact of an employee benefit reserve release resulting from legislation changes of EUR 11 million. Management actions taken to improve the profitability of the disability segment and the proxy channel in the general insurance business showed positive results, but are yet to have the desired impact. For this reason, Aegon expects to discontinue additional contracts in the proxy channel in 2015.

¿ Underlying earnings before tax from the Distribution business amounted to EUR 15 million in 2014. The decrease compared with 2013 was mainly driven by lower margins, as a result of the competitive market environment.

Commissions and expenses

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

Production

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

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

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

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

Results 2013 the Netherlands

Amounts in EUR millions	2013	2012	%
Net underlying earnings	**352**	**436**	**(19%)**
Tax on underlying earnings	102	120	(15%)
Underlying earnings before tax by business			
Life & Savings	247	276	(11%)
Pensions	206	288	(28%)
Non-life	(20)	(27)	26%
Distribution	18	16	13%
Share in underlying earnings before tax of associates	2	2	-
Underlying earnings before tax	**454**	**556**	**(18%)**
Fair value items	(41)	47	-
Gains / (losses) on investments	342	138	148%
Net impairments	(32)	(29)	(10%)
Other income / (charges)	(36)	(279)	87%
Income before tax	**687**	**433**	**59%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	-	*(3)*	-
Income tax	(166)	(46)	-
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	-	*3*	-
Net income	**521**	**387**	**35%**
Life insurance gross premiums	3,515	3,004	17%
Accident and health insurance premiums	243	220	10%
General insurance premiums	487	475	3%
Total gross premiums	**4,245**	**3,699**	**15%**
Investment income	2,310	2,273	2%
Fees and commission income	328	329	-
Total revenues	**6,883**	**6,301**	**9%**
Commissions and expenses	990	1,026	(4%)
of which operating expenses	732	746	(2%)

New life sales

Amounts in EUR millions	2013	2012	%
Life & Savings	40	46	(13%)

Pensions	166	200	(17%)
Total recurring plus 1/10 single	**206**	**246**	**(16%)**

Amounts in EUR million	2013	2012	%
New premium production accident and health insurance	24	21	11%
New premium production general insurance	26	30	(13%)

Gross deposits (on and off balance)	2013	2012	%
Life & Savings	1,338	1,484	(10%)
Total gross deposits	**1,338**	**1,484**	**(10%)**

Results 2013 the Netherlands

2013 net income increased to EUR 521 million compared to 2012 due to higher realized gains on investments which is partly offset by lower underlying earnings before tax and a loss on fair value items (compared to a gain in 2012). The decrease in underlying earnings before tax was mostly driven by Pensions earnings, partially offset by lower operating expenses following implemented cost reduction initiatives.

Net income

Net income from Aegon s businesses in the Netherlands amounted to EUR 521 million. Realized gains on investments totaled EUR 342 million and were primarily the result of adjustments to the asset mix to bring it in line with the new regulatory yield curve and selective de-risking activities. Results on fair value items amounted to a loss of EUR 41 million, which was primarily driven by adverse real estate revaluations of EUR 74 million and a loss in the guarantee portfolio of EUR 118 million, offset by a gain of EUR 176 million from macro hedge accounting of Aegon s mortgage loan portfolio and a benefit of EUR 24 million due to an update of the prospective mortality table.

The loss in the guarantee portfolio was mainly the result of the tightening of Aegon s credit spread and model refinements. 2013 impairment charges amounted to EUR 32 million and other charges were EUR 36 million, which mainly included charges of EUR 25 million related to Koersplan (compared to a charge of EUR 265 million related to the acceleration of product improvements for unit-linked insurance products in 2012).

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the Netherlands decreased 18% to EUR 454 million compared with 2012 due to lower earnings in Life & Savings and lower earnings in Pensions.

  - Earnings from Life & Savings declined 11% to EUR 247 million compared with 2012 and was impacted by EUR 28 million from reduced policy charges on unit-linked products, as part of the acceleration of product improvements for unit-linked insurance policies.
  - Earnings from Pensions decreased 28% to EUR 206 million mainly drive by the non-recurring benefit from the wind-up of several contracts and an employee benefit release.
- Non-life earnings improved to a loss of EUR 20 million in 2013. Higher investment income and lower claims on disability products more than compensated for lower profitability of the general insurance business. Distribution recorded a profit of EUR 18 million, up 13% from 2012. This was primarily driven by a continued focus on cost control.

Commissions and expenses

Commissions and expenses decreased by 4% in 2013 compared to 2012. Operating expenses decreased by 2% compared to 2012, to EUR 732 million, as realized cost savings and lower employee benefit expenses offset investments in the business.

Production

Total new life sales decreased 16% in 2013 to EUR 206 million. Individual life sales declined 13% to EUR 40 million in 2013, as the ongoing shift to banksparen products more than offset higher term life sales related to new mortgage production. Pensions sales declined 17% compared to 2012 as signing multiple new contracts was more than offset by the non-recurrence of a very large transaction in 2012. Production of mortgage loans in 2013 amounted to EUR 3.2 billion, up EUR 2.7 billion from 2012.

Premium production for accident & health amounted to EUR 24 million up from EUR 21 million in 2012. General insurance production declined 13% to EUR 26 million. Production was negatively impacted by the focus on profitable business.

Gross deposits decreased to EUR 1.3 billion, as a higher production of banksparen products was more than offset by a decline in traditional savings deposits.

Overview of the Netherlands

Aegon has operated in the Netherlands for more than 170 years, and has become the country s leading[1] provider of life insurance and pensions, with approximately 4,700 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[2] intermediaries in the Netherlands.

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[3].

Aegon the Netherlands primary subsidiaries are:

¿ Aegon Bank N.V.;

¿ Aegon Levensverzekering N.V.;

¿ Aegon Schadeverzekering N.V.;

¿ Aegon Spaarkas N.V.;

¿ Optas Pensioenen N.V.;

¿ Aegon Hypotheken B.V.;

¿ TKP Pensioen B.V.;

¿ Unirobe Meeùs Groep B.V.;

¿ Aegon PPI B.V.; and

- Stichting CAPPITAL Premiepensioeninstelling.

Aegon the Netherlands has four lines of business:

- Life & Savings;
- Pensions;
- Non-life; and
- Distribution.

Overview of sales and distribution channels

Aegon the Netherlands sells through several channels. The Pensions business line includes sales and account management, which serves large corporations and financial institutions, such as company and industry pension funds. In general, all business lines use the intermediary channel, which focuses on independent agents and retail sales organizations in the Netherlands. 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. Aegon the Netherlands launched online bank Knab in 2012 and online insurer Kroodle in 2013. Furthermore, Aegon the Netherlands has made significant investments in its direct online channel, which is starting to generate results.

1 Source: DNB/CVS Reports 2013.
2 Source: AM 2013 Jaarboek, published by Assurantie Magazine.
3 Source: Tracking Report Motivaction+.

Overview of business lines

Life & Savings

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

Products

Endowment insurance

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

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

Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in 1999 the guarantee 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 indices 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 indices or the return of related assets.

Annuity insurance

Annuity insurance includes products in the accumulation phase and products in the payout phase. Payout commences at a date determined in the policy, and usually continues until 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 indices 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

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 but no longer sells tontine plans.

Mortgage loans

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. During 2014, Aegon the Netherlands increased its mortgage loan fee business. For this business, Aegon originates the mortgage loans fully for account of third parties and remains the service provider for these mortgage loans.

Savings accounts

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

Investment contracts

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

Long-term deposits (Banksparen)

Banksparen is a savings product in which amounts are deposited in a locked bank account that is exempt from capital gains tax. The amount saved is available for specific purposes after a certain time period.

Knab

Aegon the Netherlands launched online bank Knab in 2012. The platform provides customers with insights into their financial future and uses a fee-based model to empower informed decision making by customers. A product of collaboration with customers, experts and critics, Knab is designed to meet contemporary customer needs.

Kroodle

In the first quarter of 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.

onna-onna

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

Sales and distribution

Aegon the Netherland s life and 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 and large companies. The full-service pension products for account of policyholders are separate account group contracts with and without guarantees.

Separate account group contracts are large group contracts that have an individually determined asset investment underlying the pension contract. A guarantee usually 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%.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 is typically five years and the tariffs, cost loadings and risk premiums are generally fixed over this period. Aegon the Netherlands is not allowed to automatically prolong a contract at the end of a contract 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 allowing for single and recurring premiums from customers. 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.

Sales and distribution

Most of Aegon the Netherlands pensions are sold through sales and account management and Aegon s intermediary channel. Customers include individuals, company and industry pension funds, and small, medium and large corporations. Aegon the Netherlands is one of the country s leading pension providers[1]

For the majority of company and industry customers, Aegon the Netherlands provides a full range of pension products and services. In addition, TKP Pensioen specializes in pension administration for company and industry pension funds, and furthermore provides defined contribution plans to corporate and institutional clients. Aegon PPI[2] offers defined contribution plans

1 Source: DNB/CSV Reports 2013.
2 Premium pension institutions.

for small and medium 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 the corporate and retail markets. These include house, inventory, car, fire and travel insurance.

Accident and health 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 the Aegon intermediary channel, together with through the direct channel Aegon Online and strategic partnerships, such as with local retailer Kruidvat. Aegon also uses the co-assurance market for the corporate sector, and sales and account management provides products for larger corporations in the Netherlands.

Distribution

Unirobe Meeùs Group is the main distribution channel owned by Aegon the Netherlands, 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 and investment management companies. The main competitors are Nationale Nederlanden, Eureko (Achmea), ASR, SNS Reaal (including Zwitserleven) and Delta Lloyd/OHRA. In addition, these markets are subject to quickly changing dynamics, including the growing use of online distribution channels and a changing pensions landscape (the introduction of Premie Pensioen Instellingen).

Aegon the Netherlands has been a key player in the total life market for many years, and was ranked number one in 2013 based on gross premium income. The life insurance market in the Netherlands comprises pensions and life insurance. The top six companies by gross premium income accounted for approximately 90% of total premium income in 2013[1]. Based on gross premium income in 2013[1], Aegon the Netherlands is ranked number one in the pension market and sixth in the

individual life insurance market. Aegon the Netherlands is one of a number of smaller insurers in the non-life market. Aegon the Netherlands non-life market share is around 2,7%, measured by premium income.

In the mortgage loans market, Aegon the Netherlands market share is growing and the company now holds a market share of approximately 11% based on new sales[2]. Rabobank, ING and ABN AMRO are the largest mortgage loan providers in this market.

Aegon the Netherlands holds approximately 1.4%[3] of Dutch household savings, and is therefore small in comparison to banks such as Rabobank, ING, ABN AMRO and SNS Bank.

In recent years, several regulatory changes have limited opportunities for Aegon Netherlands in the Dutch insurance 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 has 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 pension 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 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

Two bodies are responsible for the supervision of financial institutions in the Netherlands:

- De Nederlandsche Bank (DNB), the Dutch Central Bank;
- Autoriteit Financiële Markten (AFM), the Dutch Authority for the Financial Markets.

DNB is responsible for safeguarding financial stability, and supervising financial institutions and the financial sector.

The AFM supervises both the conduct of, and the provision of information by, all parties that operate in financial markets in the Netherlands. The objectives of the AFM are to promote orderly and transparent processes within financial markets, integrity of relations between market players, and consumer protection.

Regulations for the supervision of financial institutions are included in the Financial Supervision Act (2007) (Wet op het financieel toezicht). This law applies to financial institutions, such as banks, insurance companies, investment firms, investment funds and fund management companies. In many instances, the Financial Supervision Act applies similar provisions to the different types of financial institutions, with the aim of creating, where appropriate, consistent requirements for the entire financial sector in the Netherlands.

Financial supervision of insurance companies

The European Union Insurance Directives referred to collectively as Solvency I are incorporated into Dutch 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 permitted to conduct business in any European Union country, either directly or through a branch. Separate licenses are required for every branch of the insurance company where it conducts business. The regulatory body that issued the license (DNB in the Netherlands) is responsible for monitoring the solvency of the insurer.

Under Dutch law, a company is neither permitted to conduct both life insurance and non-life insurance business within a single legal entity, nor to carry out both insurance and banking business within the same legal entity.

Every life and non-life insurance company licensed by, and falling under the supervision of, DNB must file audited regulatory reports on at least an annual basis. These reports, 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.

DNB may request additional information it considers necessary and may conduct an audit at any time. It can also make recommendations for improvements and publish these recommendations if the insurance company in question does not follow them. Finally, DNB can appoint a trustee for an insurance company or, ultimately, withdraw the insurance company s license.

1 Source: Verbond van Verzekeraars (ytd December 2014)
2 Source: Kadaster (ytd October 2014)
3 Source: DNB Statistisch Bulletin

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

- Aegon Levensverzekering N.V.;
- Aegon Schadeverzekering N.V.;
- Aegon Spaarkas N.V.; and
- Optas Pensioenen N.V.

Under Solvency I, life insurance companies are required to maintain certain levels of capital in accordance with EU directives. At present, this level is approximately 4% of general account technical provision or, if no interest guarantees are 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 are 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.

Solvency II will be effective from January 1, 2016. In anticipation of Solvency II, the Dutch Ministry of Finance has taken measures to achieve a more risk-based and forward-looking supervision of insurance companies. The most important change in the supervision of Dutch insurance companies in the run up to Solvency II has been the introduction of the Theoretical Solvency Criteria (TSC) for medium and large Dutch life insurance companies, effective as of January 1, 2014 and an own risk assessment (Eigen Risico Beoordeling or ERB) by all Dutch insurance companies. Both the TSC and ERB are being used as proxies for the ability of insurance companies (going forward) to comply with the applicable solvency requirements. As such, the TSC and ERB also serve as indications as to the ability to pay dividend or redeem capital. If an insurance undertaking in the Netherlands is not compliant with the solvency requirements or does not expect to remain compliant with the applicable solvency requirements with a one year horizon, it requires the approval of the Dutch Central Bank to pay dividend or redeem capital. Originally the TSC consisted of scenarios based on Solvency I capital requirements, but similar to those of important Solvency II scenarios.

The TSC was replaced by Solvency II (SCR) calculations effective from January 1, 2015, but without imposing Solvency II capital requirements until the effective date of Solvency II. By calculating the TSC, insurers will in effect be prepared for the Solvency II capital requirements 12 months after this calculation. The SCR calculation will be used by DNB in the ladder of intervention to intervene in the event of potential breaches of solvency requirements, as defined by the Financial Supervision Act. In particular, DNB could intervene by withholding consent to pay dividend or repay capital and/or require a recovery plan (Herstelplan) from the insurance or reinsurance undertaking.

DNB also supervises pension funds, including premium pension institutions (PPIs), and investment companies. PPIs are required to maintain shareholders equity of at least EUR 0.5 million.

Financial supervision of credit institutions

Aegon Bank N.V. is supervised by the DNB and required to file monthly regulatory reports and an audited Annual Report.

Credit institutions are required to maintain solvency and liquidity ratios in line with the requirements of the Financial Supervision Act. The Financial Supervision Act incorporates the requirements of Directive 2006/48/EC, Directive 2006/49/ EC (together referred to as CRD II), and Directive 2010/76/EU (CRD III). These directives are the European Union s interpretation of the Basel accord for prudential supervision of credit institutions and investment firms. Based on these rules, credit institutions in the Netherlands are required to maintain a minimum total capital ratio (BIS ratio), currently 8%, pursuant to guidance issued by DNB. The level of capital is subject to certain requirements and is reviewed against its on- and off-balance sheet assets, with these assets being weighted according to their risk level. The Basel III accord, the new regulatory framework for the banking sector, has been finalized and is translated into European Union legislation through the CRD IV framework. The CRD IV framework is implemented in the Netherlands in the Financial Supervision Act as of January 1, 2014.

Asset liability management

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

Most of the liabilities of Aegon the Netherlands, insurance or otherwise, are nominal and 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 and the minimum desired solvency ratio, are also taken into account. 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.

In 2012, Aegon the Netherlands partially offset the risk of future longevity increases related to a part of its insurance liabilities by buying a longevity index derivative from Deutsche Bank. This will pay out if in 20 years the mortality rates have decreased more than a pre-determined percentage compared to the base scenario at the moment of signing the contract. Aegon the Netherlands or Deutsche Bank can activate an early termination clause to terminate the contract after ten years. The payout is maximized at a pre-determined percentage that is higher than compared to the base scenario. This transaction was the first transaction in Continental Europe to be based on population data, and it is the first longevity swap to be targeted directly at capital markets.

Aegon the Netherlands implemented a second longevity hedge in 2013, in line with its strategy of reducing longevity risk from the balance sheet. This covers underlying longevity reserves in the Netherlands of EUR 1.4 billion. It retains some risk around the best estimate of the insurance liabilities of Aegon the Netherlands, while offering protection for significant future mortality improvements thereby lowering the required capital for Solvency II purposes.

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.

Prior to 2011, Aegon the Netherlands reinsured its life exposure through a profit-sharing contract between its subsidiary Aegon Levensverzekering N.V. and a reinsurer. As of January 1, 2012, Aegon the Netherlands has ended this reinsurance contract, and therefore retains the full mortality and disability risk.

For non-life, Aegon the Netherlands reinsures its property, marine 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 marine insurance there is also an excess of loss contract in place with a retention level of EUR 2 million for each event.

Results 2014 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Net underlying earnings	**108**	**118**	**(8%)**	**134**	**139**	**(4%)**
Tax on underlying earnings	(16)	(44)	64%	(19)	(52)	63%
Underlying earnings before tax by business						
Life	77	85	(9%)	95	100	(5%)
Pensions	14	(10)	-	17	(12)	-
Distribution	-	(2)	-	-	(2)	-
Underlying earnings before tax	**92**	**74**	**24%**	**115**	**87**	**32%**
Fair value items	(12)	(14)	14%	(15)	(16)	6%
Gains / (losses) on investments	132	41	-	164	48	-
Net impairments	-	(26)	-	-	(31)	-
Other income / (charges)	(40)	(38)	(5%)	(49)	(45)	(9%)
Income before tax	**173**	**37**	**-**	**215**	**43**	**-**
Income tax attributable to policyholder return	(34)	(27)	(26%)	(42)	(32)	(31%)
Income before tax on shareholders return	**139**	**9**	**-**	**172**	**11**	**-**
Income tax on shareholders return	5	56	(91%)	6	66	(91%)
Net income	**143**	**65**	**120%**	**178**	**76**	**134%**
Life insurance gross premiums	3,962	5,546	(29%)	4,916	6,537	(25%)
Total gross premiums	**3,962**	**5,546**	**(29%)**	**4,916**	**6,537**	**(25%)**
Investment income	1,671	1,743	(4%)	2,073	2,054	1%
Fees and commission income	34	68	(50%)	43	80	(46%)
Total revenues	**5,668**	**7,356**	**(23%)**	**7,032**	**8,670**	**(19%)**
Commissions and expenses	620	640	(3%)	769	754	2%
of which operating expenses	354	328	8%	439	387	13%

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

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

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

Results 2014 United Kingdom

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

Net income

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

Underlying earnings before tax

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

- ¿ Underlying earnings before tax from Life decreased 9% to GBP 77 million compared with 2013. This was mostly due to lower investment income as a result of selective de-risking of the asset portfolio backing annuities in preparation for Solvency II.
- ¿ Underlying earnings before tax from Pensions increased to GBP 14 million in 2014 compared with a loss of GBP 10 million in 2013. This increase was mostly driven by improved persistency following the introduction of the Retail Distribution Review (RDR).

Commissions and expenses

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

Production

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

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

Results 2013 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2013	2012	%	2013	2012	%
Net underlying earnings	**118**	**82**	**44%**	**139**	**101**	**38%**
Tax on underlying earnings	(44)	(9)	-	(52)	(11)	-
Underlying earnings before tax by business						
Life	85	68	25%	100	83	20%
Pensions	(10)	7	-	(12)	9	-
Distribution	(2)	(2)	-	(2)	(2)	-
Underlying earnings before tax	**74**	**73**	**1%**	**87**	**90**	**(3%)**
Fair value items	(14)	(26)	46%	(16)	(31)	48%
Gains / (losses) on investments	41	68	(40%)	48	84	(43%)
Net impairments	(26)	-	-	(31)	-	-
Other income / (charges)	(38)	28	-	(45)	34	-
Income before tax	**37**	**143**	**(74%)**	**43**	**177**	**(76%)**
Income tax attributable to policyholder return	(27)	(32)	16%	(32)	(40)	20%
Income before tax on shareholders return	**9**	**111**	**(92%)**	**11**	**137**	**(92%)**
Income tax on shareholders return	56	(2)	-	66	(2)	-
Net income	**65**	**109**	**(40%)**	**76**	**135**	**(44%)**
Life insurance gross premiums	5,546	4,900	13%	6,537	6,047	8%
Total gross premiums	**5,546**	**4,900**	**13%**	**6,537**	**6,047**	**8%**
Investment income	1,743	1,894	(8%)	2,054	2,337	(12%)
Fees and commission income	68	108	(37%)	80	133	(40%)
Total revenues	**7,356**	**6,902**	**7%**	**8,670**	**8,517**	**2%**
Commissions and expenses	640	610	5%	754	754	-
of which operating expenses	328	269	22%	387	333	16%

New life sales	Amounts in GBP millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
Life	58	72	(19%)	68	89	(24%)
Pensions	802	686	17%	946	847	12%
Total recurring plus 1/10 single	**860**	**758**	**13%**	**1,014**	**936**	**8%**

Gross deposits (on and off balance)	Amounts in GBP millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
Variable annuities	3	22	(86%)	3	27	(89%)
Pensions	236	8	-	278	10	-
Total gross deposits	**239**	**30**	**-**	**281**	**37**	**-**

Exchange rates	Weighted average rate		Closing rate as of December 31,	December 31,
Per 1 EUR	2013	2012	2013	2012
GBP	0.8484	0.8103	0.8320	0.8111

Results 2013 United Kingdom

2013 net income of GBP 65 million is 40% lower than 2012 due to the impact of business transformation costs, higher impairment charges and lower underlying earnings before tax as the positive impact of higher equity markets was more than offset by adverse persistency related to the Retail Distribution Review (RDR) and investments in technology. New life sales increased by 13% to GBP 860 million due to higher sales in group pensions and strong platform growth. Platform assets reached GBP 1.3 billion by the end of 2013.

Net income

Net income decreased to GBP 65 million compared to 2012. The result was impacted by a GBP 18 million book loss on the sale of Positive Solutions and business transformation costs of GBP 51 million related to in-sourcing the platform servicing and development as well as other restructuring costs. The loss on fair value items was GBP 14 million, mainly driven by equity hedges to protect the capital position. Realized gains on investments and impairment charges amounted to GBP 41 million and GBP 26 million, respectively. 2013 included a tax benefit of GBP 79 million related to a reduction in the corporate tax rate.

Underlying earnings before tax

Underlying earnings before tax in the United Kingdom improved 1% to GBP 74 million compared to 2012. The positive impact of higher equity markets was partly offset by adverse persistency related to RDR and investments in technology.

- Earnings from Life increased 25% to GBP 85 million compared to 2012, driven by improved mortality in annuities, lower operating expenses and a GBP 8 million benefit from reserving changes for annuity products.
- Earnings from Pensions declined to a loss of GBP 10 million compared to 2012. Adverse persistency amounted to GBP 19 million, which the UK insurance industry experienced as a result of the implementation of RDR. Earnings benefited from the favorable impact of higher equity markets. This was offset by GBP 13 million of expenses related to creating a digital capability for the non-advised client group in order to facilitate the upgrade to the platform.
- 2013 earnings from Distribution amounted to a loss of GBP 2 million. Earnings from Distribution will no longer be reported separately. Positive Solutions was sold, and Origen was moved into the Pensions line of business.

Commissions and expenses

Commissions and expenses increased 5% compared to 2012 as a consequence of higher operating expenses. Operating expenses increased 22% compared to 2012 to GBP 328 million, as expenses related to investments in technology and business transformation costs of GBP 64 million were incurred. Excluding these costs, expenses were 2% lower compared to 2012. Commissions declined due to the sale of Positive Solutions and the impact of the implementation of RDR on Pension business commission.

Production

New life sales were up 13% to GBP 860 million compared to 2012, reflecting strong platform growth and higher sales in group pensions following the implementation of RDR on January 1, 2013.

Platform assets reached GBP 1.3 billion by the end of 2013. Gross deposits amounted to GBP 239 million, driven by platform savings products, as the platform gained momentum in the market.

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Overview of United Kingdom

In the United Kingdom, Aegon is a major provider of corporate and individual pensions, protection products, annuities, and savings products. Aegon UK has over two million customers, approximately 2,400 employees, and GBP 60.5 billion in revenue-generating investments. Aegon UK s main offices are in Edinburgh and London.

Aegon UK is focused on two core growth markets in the United Kingdom: at-retirement and workplace savings, and has a long history of expertise in both. Aegon UK is increasingly focused on leveraging its award-winning online platform[1], most recently enhanced with an engaging Retiready digital access service and a direct-to-consumer (D2C) proposition.

Organizational structure

Aegon UK plc is Aegon UK s holding company. It was registered as a public limited company at the beginning of December 1998.

Aegon UK s leading operating subsidiaries are:

- Scottish Equitable plc. (trading as Aegon); and
- Aegon Investment Solutions Ltd.

Overview of sales and distribution channels

Retiready

In April 2014, Aegon launched its Retiready digital access service, which is designed to help customers understand their readiness for retirement and help guide them to improve the likelihood that they achieve their desired retirement outcome.

Retiready provides an upgrade solution for those existing Aegon customers without access to advice (be it through choice or for economic reasons), enabling them to choose to upgrade to new Self-Invested Pension Plan (SIPP) and Individual Savings Accounts (ISA) products supported by a wealth of tools and support including Score, Shop, Insight, Support and Coach.

Since the initial launch, the Retiready capability has been both extended and broadened, and now provides digital engagement for every existing Aegon customer. This service is now in the process of being rolled out to all customers, and this will continue throughout 2015. In addition, the Retiready service is being actively marketed to directly acquire new customers. A critical feature of Retiready is the capability to support customers whether they want advice or not.

Innovative platform

Aegon s broad proposition offering across the individual retail market, workplace savings market and D2C market is all supported by a single technology solution with Aegon s award

1 Source: The ARC platform won Best Workplace Savings Platform at the 2014 Platforum awards and Best New Platform and Best Use of Platform Technology at the Aberdeen UK Platform Awards 2013.

winning platform at its core. This capability creates a strong and flexible technology base able to realize significant synergies and efficiencies.

Channels

Aegon markets and sells the following propositions into three channels:

Retail advisor channel

- Full-wrap service, Aegon Retirement Choices, which includes multiple wrapper choices, fully open architecture fund platform and digital advisor/customer self-service access;
- One Retirement, a standalone pension accumulation and drawdown product designed to be a single point solution for customers with more basic needs; and
- Self-directed solution, through Retiready, for those customers without a financial advisor.

Workplace channel

- Platform based Workplace Aegon Retirement Choices proposition includes a choice of savings wrappers, enables employees to receive personal finance advice, and can be maintained by employees even after they have left their existing employer. Employers auto-enrolment obligations supported through Aegon s SmartEnrol capability.

Direct channel

- Retiready digital access capability offering direct customers the ability to purchase SIPP and ISA.

Overview of business lines

Aegon UK has two business lines:

- Life; and
- Pensions.

Life

The Aegon UK life business primarily comprises individual protection and individual annuities.

Individual protection

Aegon UK offers a range of products for individual customers, including life cover, critical illness and income protection. The target market is wealthier customers over the age of 40, where Aegon UK s underwriting expertise helps it to provide a customer-centric proposition. Aegon UK also write significant volumes in the mainstream protection market, for instance, Aegon UK s new Critical Illness proposition. In addition, Aegon UK offer 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 is currently protecting around 400,000 customers, with approximately 40,000 new customers each year.

Immediate annuity

In the United Kingdom, funds in pension plans are normally converted into a source of income at retirement, usually through the purchase of an immediate annuity.

Sales and distribution

Individual protection products are distributed through intermediated advice channels, including wealth advisors, banks, and protection specialist advisors. Annuity products comprise internally vested immediate annuities and those available through intermediated advice channels.

Pensions

Aegon UK provides a full range of personal and corporate pensions. The company also offers investment products, including ISAs, General Investment Accounts (GIAs), offshore bonds and trusts.

Platform

Aegon Retirement Choices (ARC) efficiently and effectively helps advisors and their customers with the transition from work to retirement through a technology-driven platform. Aegon UK has deployed leading-edge technology to the platform, delivering an intuitive method of saving for retirement through the workplace, 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. Professionalism and transparency are key principles of the Retail Distribution Review, which came into effect on January 1, 2013. In addition to the SIPPs which provide a range of pre- and post-retirement investment options for high-net-worth customers, including insured funds and real estate the platform also offers ISAs and GIAs.

Corporate pensions

One of Aegon UK s largest product lines is providing pension plans for companies. Aegon UK offers group pension solutions on- and off-platform, depending on the needs of the employer and employee. In the United Kingdom, auto-enrolment will continue to have a dramatic effect on the workplace savings market, increasing the number of employees that save through their employers pension arrangements.

Changes in workplace pensions including charge caps and a commission ban will also be introduced by the Department of Work and Pensions (DWP) from April 2015. These significant changes pose a challenge for the industry. Aegon is well prepared to make changes in order to support customers and advisors through this period.

The move away from defined benefit (DB) arrangements, which provide a guaranteed percentage of salary on retirement, toward defined contribution (DC) plans, in which the employer, employee or both make contributions on a regular basis, has continued to accelerate in recent years. DC plans are similar to personal pensions, with contributions paid into a plan owned by individual employees and then invested. In general, at retirement, employees can choose to take a percentage of tax-free cash from their pension plan, using the remainder to either purchase an annuity or invest it in a separate drawdown policy.

As a result of this trend, the market for new DB plans has contracted considerably in recent years, largely due to concerns over long-term liabilities.

Investment gateway

Many DC and master trust pension schemes are managed by a third party with an insurance contract. These are typically trust-based pensions for which the corporate customer (an employer) requires investment solutions that are specific to every individual pension scheme. These solutions typically require a non-branded investment portal and the provision of fund blending to create scheme default funds. In addition, a growing number of corporate customers want target dated lifestyle fund solutions for their members as they approach retirement. Aegon UK provides a low cost service that uses electronic messaging to automate the process and minimize risk.

Individual pensions

Aegon UK provides a wide range of personal pensions and associated products and services. These include:

- Flexible personal pensions;
- Self-invested personal pensions;
- Transfers from other retirement plans; and
- Phased retirement options and income drawdown.

As an alternative to annuities, Aegon UK also offers Income for Life , a retirement solution that bridges the gap between annuities and income drawdown products. It offers customers a guaranteed income for life, plus continued control over their investments until the age of 75.

Investment products

Aegon UK offers offshore investment bonds. An offshore bond is traditionally marketed to high-net-worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options. Aegon UK also offers GIAs and ISAs through its platform.

Unit-linked guarantees

Aegon UK offers a range of investment products that provide valuable guarantees for the at-retirement market. There is an offshore investment plan, which provides a guaranteed income for life, and an offshore bond, which provides capital guarantees (offered by Aegon Ireland plc.[1]) .

Sales and distribution

Investment products, together with individual and corporate pensions, are widely distributed through independent financial advisors, tied distribution and, more recently, through partnerships with banks. Aegon UK also maintains close relations with a number of specialist advisors in these markets. Aegon UK is building and diversifying its workplace distribution capability, having started partnering with Mercer and Barclays in the first half of 2013. ARC is distributed through intermediated advice channels.

Competition

Aegon UK faces competition from three main sources: life and pension companies, retail investment firms, and retail platform service companies.

Over the past few 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 Legal and General, Standard Life, Lloyds Bank and Aviva. In the platform market, service companies such as Cofunds, Funds Network and Skandia are among Aegon UK s largest competitors.

Regulation and supervision

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

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

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

Financial supervision of insurance companies

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: an insurance company with a license issued by the regulatory authorities in its home country is allowed to conduct business in any country of the European Union, either directly or through a branch. Separate licenses are required for each branch of the insurance company where it conducts business. The regulatory body that issued the license (the PRA in the UK) is responsible for monitoring the solvency of the insurer.

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

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

The PRA may request additional information it considers necessary and may conduct an audit at any time. The PRA may also make recommendations for improvements. Finally, the PRA 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. At present, this level is 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 will be effective from January 1, 2016, and will replace the existing solvency regime at that time. The Solvency Capital Requirement under Solvency II (SCR) also requires firms to withstand a 1 in 200 shock on a 1-year value at risk basis. The underlying technical provisions will, however, be calculated in line with the Solvency II requirements rather than the firms internal view as part of the ICA.

The PRA will continue to require firms to maintain adequate capital under Solvency I and under the ICA while preparing for the transition to Solvency II. In anticipation of Solvency II, Aegon UK uses a similar capital model as will be used for the calculation of the SCR.

1 The offshore bond is offered by Aegon Ireland plc. and is reported separately in the New Markets segment, rather than as part of the UK segment.

Asset liability management

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

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 regular 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 results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets are invested in funds managed by external investment managers. The MIC monitors the performance of the investment managers against fund benchmarks.

With-profit fund

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

Below is a summary of Aegon UK s overall approach to the management of the with-profit fund.

Guarantees

With the exception of Aegon Secure Lifetime Income and 5 for Life , which are written by Aegon Ireland plc, and the product

guarantees within 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.

In previous years, Scottish Equitable sold guaranteed annuity products in the United Kingdom. Certain policies also have a guaranteed minimum rate of return, guaranteed minimum pension, or guaranteed death or other benefits. Guaranteed rates of return apply only if the policy is kept in force to the dates specified, or only 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 United Kingdom and overseas equities, United Kingdom 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. Within these target ranges, there is a policy of holding an appropriate mix of asset classes to reduce risk.

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 reporting in the United Kingdom.

As the Scottish Equitable with-profit fund is now closed to new business with investment guarantees, the free assets are being distributed gradually 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 heavily 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 and Transamerica.

Results 2014 New Markets

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

of which operating expenses	684	656	4%

New life sales

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

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

Gross deposits (on and off balance)	2014	2013	%
Central & Eastern Europe	215	248	(13%)
Asia	526	587	(10%)
Spain and France	55	9	-
Variable Annuities Europe	383	424	(10%)
Aegon Asset Management	19,340	13,018	49%
Total gross deposits	**20,519**	**14,287**	**44%**

Exchange rates

	Weighted average rate	
Per 1 EUR	2014	2013
US dollar	1.3288	1.3272
Canadian dollar	1.4667	1.3674
Pound sterling	0.8061	0.8484
Czech koruna	27.5153	25.9238
Hungarian florint	308.3758	296.3309
Polish zloty	4.1839	4.1940
Romanian leu	4.4429	4.4167
Turkish Lira	2.9060	2.5305
Chinese rin bin bi yuan	8.1902	8.1637

Results 2014 New Markets

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

Net income

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

Underlying earnings before tax

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

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

Commissions and expenses

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

Production

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

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

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

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

Results 2013 New Markets

Amounts in EUR millions	2013	2012	%
Net underlying earnings	**153**	**179**	**(15%)**
Tax on underlying earnings	74	87	(15%)
Underlying earnings before tax by business / country			
Central & Eastern Europe	57	84	(32%)
Asia	34	12	183%
Spain and France	33	69	(52%)
Variable Annuities Europe	7	-	-
Aegon Asset Management	95	101	(6%)
Underlying earnings before tax	**227**	**266**	**(15%)**
Fair value items	(21)	(1)	-
Gains / (losses) on investments	-	10	-
Net impairments	(16)	(26)	38%
Other income / (charges)	(33)	113	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**158**	**362**	**(56%)**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	5	15	(67%)
Income tax	(31)	(119)	74%
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	(5)	(15)	67%
Net income	**127**	**243**	**(48%)**
Life insurance gross premiums	1,349	1,374	(2%)
Accident and health insurance premiums	170	188	(10%)
General insurance premiums	194	144	35%
Total gross premiums	**1,713**	**1,706**	**-**
Investment income	233	319	(27%)
Fees and commission income	583	524	11%
Other revenues	2	3	(33%)
Total revenues	**2,531**	**2,552**	**(1%)**
Commissions and expenses	999	878	14%
of which operating expenses	656	613	7%

New life sales

Amounts in EUR millions	2013	2012	%
Central & Eastern Europe	108	114	(5%)
Asia	67	53	26%
Spain and France	54	86	(37%)
Total recurring plus 1/10 single	**228**	**253**	**(10%)**

Amounts in EUR million	2013	2012	%
New premium production accident and health insurance	43	42	2%
New premium production general insurance	35	25	40%

Gross deposits (on and off balance)	2013	2012	%
Central & Eastern Europe	248	316	(22%)
Asia	587	169	
Spain and France	9	45	(80%)
Variable Annuities Europe	424	463	(8%)
Aegon Asset Management	13,018	9,916	31%
Total gross deposits	**14,287**	**10,909**	**31%**

Exchange rates	Weighted average rate	
Per 1 EUR	2013	2012
US dollar	1.3272	1.2849
Canadian dollar	1.3674	1.2839
Pound sterling	0.8484	0.8103
Czech koruna	25.9238	25.1140
Hungarian florint	296.3309	288.8606
Polish zloty	4.1940	4.1809
Romanian leu	4.4167	4.4548
Turkish Lira	2.5305	2.3132
Chinese rin bin bi yuan	8.1637	8.1377

Results 2013 New Markets

Net income in 2013 decreased to EUR 127 million as gains from divestments were more than offset by a write down of intangible assets in Poland following legislative changes and lower underlying earnings before tax as increases in underlying earnings before tax in Asia and Variable Annuities Europe were more than offset by decreases in Central & Eastern Europe, Spain and Aegon Asset Management.

Net income

2013 net income declined to EUR 127 million. Higher losses from fair value items and lower gains on investments compared to 2012 were only partly offset by lower impairment charges. In 2013, gains from divestments in Spain were offset by a write down of intangible assets in Poland as the Polish parliament approved legislation to overhaul the existing state pension system. This resulted in an impairment of intangible assets related to the Polish pension business for an amount of EUR 192 million before tax. In 2012, there was a substantial benefit related to the divestment of investment manager Prisma.

Underlying earnings before tax

In New Markets, underlying earnings before tax in 2013 declined 15% to EUR 227 million compared to 2012, as increases in Asia and Variable Annuities Europe were more than offset by declines in Central & Eastern Europe, Spain and Aegon Asset Management.

- Earnings from Central & Eastern Europe declined 32% to EUR 57 million compared to 2012, which was primarily driven by the introduction of the insurance tax in Hungary and lower non-life results in Hungary from adverse claim experience. Additionally, earnings were impacted by investments related to the inclusion of the business in Ukraine.
- Results from Asia increased 183% to EUR 34 million compared to 2012, driven mainly by actuarial assumption changes and model refinements of EUR 22 million. The positive impact of growth of the business and cost savings was offset by higher non-deferred acquisition costs driven by strong growth in variable annuities production in Japan where Aegon does not yet defer its acquisition expenses.
- Earnings from Spain & France decreased 52% to EUR 33 million compared to 2012 due to the divestment of the joint ventures with CAM, Civica and Unnim. The new joint venture with Santander contributed to underlying earnings, which was mostly offset by investments in developing a direct distribution channel. The earnings contribution from partner La Mondiale in France rose slightly and amounted to EUR 21 million for the year.
- Results from Variable Annuities Europe amounted to EUR 7 million, mainly resulting from growth of the business.
- Earnings from Aegon Asset Management declined 6% to EUR 95 million, as the positive impact of higher third-party asset balances was more than offset by the loss of earnings from the sale of hedge fund manager Prisma in the fourth quarter of 2012.

Commissions and expenses

In 2013, commission and expenses increased 14% to EUR 999 million compared to 2012. Operating expenses increased 7% to EUR 656 million. The increase in operating expenses was the result of higher costs in Asia and Variable Annuities Europe driven by investments to support future growth, the inclusion of the business in Ukraine and the introduction of the insurance tax in Hungary. The increase in commissions is driven by higher sales in Asia compared to 2012.

Production

New life sales decreased 10% to EUR 228 million compared to 2012.

- In Central & Eastern Europe, new life sales declined 5% to EUR 108 million compared to 2012. Sales growth in Turkey and Slovakia driven by improved distribution productivity and product launches respectively, was more than offset by lower sales in Poland resulting from reduced production in the broker channel.
- In Asia, new life sales increased 26% to EUR 67 million compared to 2012. This was mainly driven by the launch of a new universal life product and the expanded cooperation with a number of private banks.
- New life sales in Spain declined 37% to EUR 54 million compared to 2012, as the sales contribution from the joint venture with Santander was offset by the loss of sales driven by the divestment of partnerships.

New premium production from accident and health insurance business increased 2% to EUR 43 million compared to 2012, mainly driven by the direct marketing unit in Asia. New premium production from Aegon s general insurance business was up 40% to EUR 35 million compared to 2012, driven by the inclusion of the joint venture with Santander and growth in Central & Eastern Europe.

Gross deposits in New Markets amounted to EUR 14.3 billion, up 31% compared to 2012. Gross deposits in Aegon Asset Management increased 31% to EUR 13 billion, mainly driven by strong growth in institutional sales in the United States and the Netherlands and retail sales in the United Kingdom. Gross deposits in Asia more than tripled to EUR 587 million driven by strong sales of variable annuities in Japan, while deposits in Central & Eastern Europe declined following pension legislation changes.

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 and the springboard for its further expansion in the region.

Organizational structure

Aegon s main subsidiaries and affiliates in Central & Eastern Europe (CEE) are:

- ¿ Aegon Hungary Composite Insurance Co. (Aegon Magyarország Általános Biztosító Zártkörűen MűködőRészvénytársaság);
- ¿ Aegon Poland Life (Aegon Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna);
- ¿ Aegon Poland Pension Fund Managemenet Co. (Aegon Powszechne Towarzystwo Emerytalne Spółka Akcyjna);
- ¿ Aegon Turkey (Aegon Emeklilik ve Hayat A.Ş.);
- ¿ Aegon Romania Pension Administrator Co.(Aegon Pensii Societate de Administrare a Fondurilor de Pensii Private S.A);
- ¿ Aegon Czech Life (Aegon Poji t ovna, a.s);
- ¿ Aegon Slovakia Life (Aegon ivotná poist ovňa, 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[1], Aegon is one of the leading providers of unit-linked products. In addition, Aegon Poland Life also offers traditional saving type products. In 2014, Aegon Poland Life s Management Board decided that, starting from November 24, 2014, the Company would not collect fees defined in the General Insurance Terms as surrender fees for the unit-linked policies with regular premiums. The decision was in response to the changing environment relating to customer protection, and was in line with the regulator s recommendation.

In Hungary, Aegon offers a wide range of life insurance products, including term life products, whole life products, group life insurance, accidental life and traditional saving type products besides unlit-linked policies, frequently accompanied by riders. Aegon is also a significant market player in Hungary[2] in the unit-linked segment.

In both the Czech Republic and Slovakia, Aegon focuses on the unit-linked segment, besides selling term life products and offering a wide range of riders covering 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 selling mainly endowment traditional life products. The company was subsequently renamed Aegon Life Ukraine . Due to the unstable political and economical climate the business develops slowly.

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

1 Source: www.knf.gov.pl.
2 Source: www.mabisz.hu.

Asigurari S.A. s life portfolio in Romania, which consists mainly of 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. In the early years, mainly Swiss franc denominated home mortgage loans were provided by Aegon Hungary Mortgage Finance Co., a subsidiary of Aegon Hungary Composite Insurance Company. Due to legislative changes, it shifted to Hungarian forint-based lending in 2010.

The mortgage loan business has been affected by several legislative changes in recent years. According to laws enacted in 2014, financial institutions have to retrospectively apply exchange rates of the Hungarian Central Bank (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 (Supreme Court), financial institutions have to reimburse unilateral fee and interest increases they made in the past under the loan agreements to the debtors. The settlement with debtors is expected to be undertaken and completed in 2015. Furthermore, due to other legislative changes also enacted in 2014, most foreign currency denominated loans have to be converted into Hungarian forint-based loans at fixed exchange rates in 2015, with subsequent interest charges maximized by law.

On April 1, 2014, Aegon Hungary Mortgage Finance Company suspended its lending activities.

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 the formerly mandatory private pension market, Aegon was active in Slovakia, Poland, and Romania, in 2013 having exited Hungary. In the voluntary pension market, Aegon was active in Hungary and Turkey, having exited Slovakia and the Czech Republic in 2013.

In terms of assets under management, Aegon s private pension funds in Poland[1], Slovakia[2] and Romania[3], and voluntary pension fund in Hungary[4], are among the largest in the respective countries. In terms of member numbers, Aegon has a significant market presence in Poland[5], Romania[6], and Hungary[7]. As of December 2014, Aegon had over 2.1 million pension fund members in Central & Eastern Europe. Since 2009, a series of legislative changes implemented in Aegon s regional country

units has had a significant impact on this line of business. The impact was the most significant in Hungary and Poland.

The changes to pension legislation enacted in Hungary at the end of 2010 had a very significant impact on the private (formerly mandatory) pension system. One of the most important measures was that private pension members were required to choose whether to remain enrolled in the private pension fund (on condition of termination of entitlement to the state pension for employment years after 2011) or opt out of private pension funds, transferring accumulated savings to the state held pension system. As a result, approximately 3% of members decided to remain enrolled in the private pension system and 97% moved to the state pension system.

Further legislative changes, enacted in Hungary at the end of 2011, required that all contributions deducted from the monthly wages of members were transferred to the state driven pension system (Pillar I). Members were able to transfer contributions to the private (formerly mandatory) pension funds only on a voluntary basis.

Following the changes mentioned above, on May 31, 2012, the delegate general meeting agreed to terminate the Aegon private pension fund without any legal successor in Hungary. The liquidation process began on July 1, 2012, and was completed in 2013.

In Poland, in accordance with legislative changes enacted in 2011, the contribution level payable into the private pension fund was reduced significantly. As of 2012, new members may no longer be actively recruited into private pension funds by pension management companies. Also, in accordance with the legislative changes that came into force on January 31, 2014, the Polish treasury bonds, treasury bills and other state-backed debt instruments, representing around 50% of the value of the managed pension fund, had to be transferred back to the Social Insurance Institution (ZUS) of Poland. Furthermore, as a result of the changes, membership for the purpose of paying future contributions became voluntary. Members were required to make this decision by the end of June, 2014. In total, 9% of Aegon s private pension fund members decided to continue paying contribution into the private fund, while 91% pay contribution into the state fund managed by ZUS. In addition, ZUS will provide the retirement benefits to members, requiring the management companies to gradually transfer the remaining assets of the members to ZUS, commencing 10 years before a member reaches retirement age. As a result, Aegon wrote off the

1 Source: Polish Financial Supervision Authority, www.knf.gov.pl.
2 Source: The Association of Pension Fund Management Companies, Slovakia, www.adss.sk.
3 Source: http://www.asfromania.ro.
4 Source: The Central Bank of Hungary, https://felugyelet.mnb.hu.
5 Source: www.knf.gov.pl.
6 Source: http://www.asfromania.ro.
7 Source: The Central Bank of Hungary, https://felugyelet.mnb.hu.

intangible assets on its balance sheet in 2013, resulting in a loss of EUR 192 million before tax.

In Slovakia, Aegon announced its withdrawal from the voluntary pension business in 2011, and exited the market in 2013. Since September 2012, there has been a significant reduction in the contribution rate payable into private pension funds in Slovakia. In addition, as a result of the legislation enacted in 2013, it is no longer mandatory to join a private pension fund (Pillar II).

As of 2013, in Turkey, in accordance with legislative changes enacted in 2012, a reduction is applied to the maximum chargeable level of entrance fees, administration fees, and asset management fees. From 2013, pension contributions have no longer been subject to tax incentives; instead, members receive 25% of their contributions in the form of direct support from the state.

In the Czech Republic, as of January 2013, former pension companies have been transformed into management companies managing newly launched Pillar II and Pillar III pension funds. These exist alongside the so-called transformation fund, into which savings accumulated to the end of 2012 were placed. Aegon elected not to enter Pillar II in the Czech market. Aegon operated a transformation fund throughout 2013. On December 30, 2013, Aegon disposed of its pension line of business, thereby exited the Czech pensions market.

In Romania, in October 2014, Aegon Romania Pension Administrator Company took over the management of Eureko private pension fund. The Eureko fund merged with Vital, the Pillar II private pension fund managed by Aegon. As a result it became the fourth largest such fund in the country[1].

Non-life

Aegon Hungary offers non-life cover (household, car insurance, and some wealth industrial risk). Aegon is the leading[2] insurance company in the Hungarian household market. In recent years, margins on non-life insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for cross-selling life insurance.

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

Competition

Aegon is among the biggest providers operating in the life insurance market in Hungary. In 2014, it was the third largest[2] provider in Hungary, based on the first nine months standardized premium income, and the third largest[2] provider in the non-life insurance market. Aegon is also a significant market participant in Poland[3] and Ukraine[4] As of June 2014, it was ranked fifth[5] for unit-linked products in Poland, based on gross written premiums. Aegon is not a significant market participant in those markets in

which it was relatively recently incorporated: Aegon Slovakia (incorporated in 2003); Aegon Czech Republic (incorporated in 2004); and Aegon Romania (incorporated in 2008). Similarly, Aegon is not a significant participant in Turkey, where it acquired its business in 2008.

In Hungary s voluntary pension fund market, Aegon was ranked third[6] for both the number of its members and its managed assets in 2012. For managed assets, in 2014 Aegon was ranked fifth[7] in the Slovakian private pension market. In Poland, Aegon was ranked tenth[8] for number of members and managed assets as at September 2014. In 2014, Aegon ranked fourth[9] in the Romanian mandatory private pension market, both for net assets under management and number of members.

Regulation and supervision

In Central & Eastern Europe, a single insurance company may only be licensed for, and conduct, either a life insurance business or 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 Ukrainian Financial Services Markets.

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 subject to 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 Hungary, the foundation and operations of voluntary pension funds are regulated by the country s Voluntary Mutual Pension

1 Source: http://www.asfromania.ro.
2 Source: www.mabisz.hu.
3 Source: www.knf.gov.pl.
4 Source: uainsur.com.
5 Source: www.knf.gov.pl.
6 Source: The Central Bank of Hungary, https://felugyelet.mnb.hu.
7 Source: The Association of Pension Fund Management Companies, Slovakia, www.adss.sk.
8 Source: www.knf.gov.pl.
9 Source: http://www.asfromania.ro.

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 pension system is regulated and supervised by the Authority for Financial Supervision (ASF), and the mandatory pension system is subject to the Privately Administered Pension Funds Act (411/2004) (as primary legislation), and 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 the 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) regulates 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 that 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 is to mitigate insurance risk. Aegon s companies in the region only work through large multinational reinsurers that have well-established operations in the region in accordance with Aegon s Reinsurance Use Policy. For short-tail business, Aegon CEE accepts reinsurance companies with a minimum Standard & Poor s (S&P) rating of A-. For long-tail business Aegon CEE accepts reinsurance companies with a minimum S&P rating of AA-. The credit standing of the reinsurance partners is strictly monitored, discussed on a monthly basis by the Global Reinsurance Use Committee, and assessed on a quarterly basis by the Risk & Capital Committee. From 2013, Aegon Hungary began a long-term arrangement with Aegon s internal reinsurer, Blue Square Re, for property, catastrophe and motor third-party liability risks. In the first phase, Blue Square Re takes the risk, in the second phase, Blue Square Re retrocedes the risk in the reinsurance market with some retention levels. 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 16.2 million retention);
¿ Motor third-party liability excess of loss treaty (EUR 0.8 million retention);
¿ Property per risk excess of loss treaty (EUR 1 million retention); and
¿ General third-party liability excess of loss treaty (EUR 0.1 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).

Overview of Asia

Aegon Asia operates in the Asia region through three major joint ventures in China, India, and Japan, in addition to a network of wholly-owned subsidiaries.

Organizational structure

- ¿ Aegon s main operating companies in Asia are:
- ¿ Aegon-CNOOC Life Insurance Co. Ltd. (50%);
- ¿ Aegon Religare Life Insurance Co. Ltd. (26%);
- ¿ Aegon Sony Life Insurance Co. Ltd. (50%);
- ¿ SA Reinsurance Ltd. (50%); and
- ¿ Transamerica Life (Bermuda) Ltd.

Joint ventures

In 2002, Aegon signed a joint venture agreement with China National Offshore Oil Corporation (CNOOC), China s leading offshore oil and gas producer. Aegon-CNOOC Life Insurance Co. Ltd (Aegon-CNOOC) began operations in 2003. Aegon-CNOOC is licensed to sell both life insurance and accident and health products in China. Aegon-CNOOC 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 booming coastal provinces of eastern China. 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-CNOOC. Regulatory approval for THTF to replace CNOOC as the shareholder of Aegon-CNOOC was granted by the Chinese Insurance Regulatory Commission on December 11, 2014.

In 2006, Aegon entered into a joint venture agreement with Religare Enterprises Limited and Bennett, Coleman & Company Limited to establish Aegon Religare Life Insurance Co., Ltd. (Aegon Religare) in India. Aegon Religare commenced operations in 2008. By August 31, 2014, Aegon Religare had a distribution network across 52 cities and 20 states in India, and had issued more than 391,000 policies to over 342,000 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 September 2014, Aegon Sony Life had entered into distribution partnerships with two mega banks and sixteen 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 by Aegon s operations in Asia, whereby all of Aegon s Asia-based insurance businesses became managed as one regional division headquartered in Hong Kong.

Transamerica Life Bermuda (TLB) recently commemorated 80 years of service to its customers in Asia. It 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 an independent direct marketing services company with operations in six countries in the Asia-Pacific region. The first ADAMS company was established in Australia in 1998, and has subsequently launched operations in Japan, Hong Kong, Thailand, India and Indonesia.

Overview of sales and distribution

In China and India, Aegon-CNOOC and Aegon Religare, offer products through multiple distribution channels: agents, independent brokers, banks, direct marketing, group, and e-sales.

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

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

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

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-CNOOC s agency and broker channels primarily sell regular premium endowment with high sum assured protection and 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 selling protection products.

Aegon Religare 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 universal life and USD term plans for the high-net-worth market. A new range of products was launched in the fourth quarter of 2013 and over the course of 2014.

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 reinsured all minimum guarantees offered on Aegon Sony Life s variable annuity products.

Non-life

Aegon-CNOOC 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 has multiple international business partners across Asia, including banks and non-financial institutions. It focuses on protection products that generate risk premiums, such as term life insurance, personal accident insurance, and supplemental health insurance.

Competition

China - Aegon-CNOOC

As of July 31, 2014, there were 71 life insurance companies in the market, including 43 domestic life companies and 28 foreign life insurers. Based on total premium income, Aegon-CNOOC ranked forty-sixth among life insurance companies and thirteenth among foreign life companies in China. Aegon-CNOOC s market share among foreign-invested companies was 2.0%[1].

India - Aegon Religare

There were 24 licensed life insurers in India at the end of August 2014. The state-owned Life Insurance Corporation of India remains dominant with a 72%[2] share of new business premiums (January 2014 to August 2014), and the remainder is made up of private sector companies.

Japan - Aegon Sony Life

The bancassurance channel is a key growth area in the Japanese insurance market. The largest share of the bancassurance single

premium sector is the single premium whole life product. The surrender payment rate of these products is higher than interest on a savings account, and the commission rate incentivizes strong sales by the bancassurance representatives.

There is a strong need in Japan for individual annuity products for self-support after retirement. Demographic change (falling birth rate and aging population) is particularly acute in Japan, and the current public pension scheme appears unsustainable. Guaranteed minimum accumulation benefit remains the main product in the variable annuities market. There are eight active companies in Japan s variable annuities market. Aegon Sony Life had the second-largest market[3] share in 2014, a position it has held since early 2013.

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 potential 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.

Traditional direct marketing remains a viable channel in Asia, particularly in many emerging markets. As these markets mature, market participants must increasingly expand their capabilities in order to employ their customers preferred channels. For insurers, this primarily involves developing the use of media such as Direct Response TV, product microsites, health portals, social media platforms, and mobile applications.

Regulation and supervision

China - Aegon-CNOOC

On August 13, 2014, the State Council published a number of statements on Accelerating the Development of a Modern Insurance Industry . It was stated that by 2020, a modern insurance industry should be constructed, featuring comprehensive protection, complete functions, stability, security, integrity, compliance, strong service, innovation and international competitiveness, in order to match China s social and economic development. The State Council also stated that the insurance industry should be transformed from a large insurance country to a powerful insurance country, by achieving an insurance penetration rate of 5% and insurance density of RMB 3,500. The insurance industry in China is regulated by the China Insurance Regulatory Commission (CIRC).

1 Source: Market data in this paragraph: China Insurance Regulatory Commission (CIRC), circ.gov.cn/Default.aspx?alias=www.circ.gov.cn/english.

2 Source: Insurance Regulatory and Development Authority of India (IDRA), irda.gov.in.
3 Source: Internal data.

India - Aegon Religare

Indian life insurance companies are regulated by the Insurance Regulatory and Development Authority (IRDA). The IRDA 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 insurance policy holders of the country.

The IRDA 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 IRDA during 2014 include: the setting up of repositories to facilitate dematerializing of physical policy documents; implementing a requirement to have policy documents in local languages; guidelines with respect to improving persistency; and regulations on web aggregators and insurance brokers.

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, general policy provisions, statements of business procedure, pricing and valuation are all approved by the FSA.

In late December 2012, the FSA issued a new solvency margin risk standard that limits the assets used while broadening the measurement for solvency risk. More recently, the FSA has been strictly monitoring the solicitation of insurance products to the elderly. Aegon Sony Life has, as a result, enhanced its guidelines.

Hong Kong and Singapore - TLB

TLB is incorporated in Bermuda and is regulated by the Bermuda Monetary Authority, the integrated regulator of the financial services sector in Bermuda. TLB s Asia branches are located in Hong Kong and Singapore. The insurance industry in Hong Kong is regulated by the Office of the Commissioner of Insurance (OCI).

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

Particularly in the market for direct distribution, there is an evolving regulatory environment for the use of personal data for marketing purposes. ADAMS remains abreast of any changes or proposed changes to regulations governing personal data in all of its markets. Where appropriate, ADAMS implements industry standard compliance programs, such as PCI Compliance in Australia and P-Mark in Japan.

Asset liability management

China - Aegon-CNOOC

An asset liability management meeting is held every month to monitor asset and liability mismatch risk, investment risk and solvency position. The dollar durations of liabilities and assets are calculated separately by block, and the dollar duration gap is analyzed. Based on the payment structure and term of insurance liabilities, Aegon-CNOOC usually purchases corporate bonds, government bonds, bank deposits, debt projects, or other fixed income assets to match this liability. Operating and shareholders equity funds are invested in mutual funds, convertible bonds, stocks, money market fund and bond repurchase in order to achieve higher investment returns.

The respective Risk and Capital Committees of Aegon-CNOOC meet quarterly to manage and monitor all types of risks that Aegon-CNOOC faces. Financial risks, in addition to operational risks, are monitored and discussed in the meeting.

India - Aegon Religare

Aegon Religare has a board-level Investment Committee and a board-level Risk Management Committee (RMC). Furthermore, there is a management-level Risk & Capital Committee (RCC). Regular reviews of risk and capital requirements are conducted by the committee members of the RCC and RMC. Monthly reviews are performed to ensure appropriate ALM for the closed block of business under traditional products. At the end of each quarter, the ALM report is tabled at the RCC meeting.

Japan - Aegon Sony Life and SARe

Aegon Sony Life reinsures (cedes) 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 that the implementation of appropriate risk management activities is in accordance with Aegon s Risk Management Policy.

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

The TLB assets are currently managed by Aegon USA Investment Management in the United States in a pool of assets backing similar liabilities. There is a management-level Risk and Capital Committee (RCC) and a management-level Investment Committee (IC). Regular reviews of risk and capital matters are conducted by RCC members. Members of the IC focus particularly on the areas of investment performance and mismatch risk.

Asia - ADAMS

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

Reinsurance ceded

China - Aegon-CNOOC

Aegon-CNOOC 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 General Re and Munich Re in quota share. The group products are mainly reinsured by Hannover Re. Aegon-CNOOC also has modified co-reinsurance with Hannover Re to improve its solvency ratio, in addition to morbidity and mortality risk transfer. Aegon-CNOOC reviews the reinsurance structure regularly and adjusts it based on the claim experience and its risk acceptance capability.

India - Aegon Religare

Reinsurance arrangements are regulated by the IRDA. Aegon Religare 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 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 in general, the leading providers in the reinsurance industry.

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. Increasingly, ADAMS also generates fee income from its professional services.

Overview of Spain

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.

Until 2010, Aegon Spain Holding (hereinafter, Aegon Spain), through its subsidiary Aegon España S.A.U. de Seguros y Reaseguros (hereinafter, Aegon España) operated in Spain with two subsidiaries, Aegon Salud S.A.U. de Seguros y Reaseguros and Aegon Seguros y Reaseguros de Vida Ahorro e Inversión, S.A.U., which were merged by Aegon España, as of January 1, 2011. Aegon Administracion y Servicos A.I.E., a separate legal entity, provides administration and operations services to all Aegon companies in Spain, including joint ventures with third parties. In addition, Aegon Spain operates through partnerships with the financial services organizations Banco Santander and Liberbank, S.A.. On July 30, 2014, Aegon Spain signed a 25-year agreement to distribute both protection and general insurance products through Banco Santander s network of branches in Portugal. Aegon Spain sold its stake in the partnership with Cajatres on September 3, 2014.

Organizational structure

Aegon main subsidiaries and affiliates in Spain and Portugal are:

- Aegon Espana S.A. de Seguros y Reaseguros;
- Aegon Administracion y Servicos A.I.E.;
- 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 ongoing economic situation in Spain continues to have an effect on all channels, particularly bancassurance. The Spanish banking sector has undergone significant change since 2012, when a structural reform program was implemented. This resulted in the restructuring of the banking sector and triggered a wave of mergers and acquisitions aimed at consolidation a process that affected Aegon Spain s banking partners to varying degrees. The economic outlook for the next 12 months is more favorable due to these measures, which will continue to affect Aegon Spain s banking partners in different ways. The main distribution channel in the Spanish market is bancassurance, which accounts for 70% of life sales, in comparison with 23% for brokers and 7% for direct customers. Aegon Spain distributes its products nationwide through partner branches and its own sales network.

Aegon Spain and Banco Santander

In December 2012, Aegon Spain and Banco Santander formed a partnership to distribute certain insurance products. This became fully operational in June 2013, following regulatory approval.

Banco Santander is the largest financial institution in Spain, with 4,548 branches nationwide. Aegon Spain agreement with Banco Santander concerns the business lines of pure life risk and the general insurance products accident, home and commercial multi-risk insurance, and sickness. 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%.

The agreement signed between Aegon Spain and Santander Totta Seguros a Portuguese insurance company belonging to Santander international group concerns the distribution of certain insurance products. This became fully operational in December 2014, following regulatory approval.

Liberbank Vida y Pensiones

Liberbank, S.A. was created from a combination of the banking assets and liabilities of Cajastur, Caja Extremadura and Caja Cantabria. It has a presence nationwide, and a leadership position in retail markets in several Spanish regions (Asturias, Cantabria, Castilla La Mancha and Extremadura). Liberbank Vida y Pensiones currently distributes its products through 679 Liberbank, S.A. branches.

On December 31, 2014 Cantabria Vida y Pensiones (Aegon s partner until 2014) was merged by absorption by Liberbank Vida y Pensiones.

Distribution

Aegon Spain distributes life insurance, general insurance, health and pension products. It uses two main distribution channels: bancassurance, which comprises 56% of the total; and its own network of brokers and agents. Aegon Spain s sales network is focused on individual life and health insurance in urban and rural areas.

Overview of business lines

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

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.

General insurance

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

Health

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

The gross premium written contribution in 2014 for each of Aegon Spain s business lines was 60% for life insurance, 18% for accident and health insurance, and 22% 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[1] is dominated by Grupo Caixa, with a 22.2% market share, and Mapfre, with a 10.6% market share, followed by Santander Seguros, with a 7.6% market share. Aegon Spain s market share is 1.0%.

For Aegon Spain s health and general insurance products, the main competitors are foreign and local companies. Mapfre leads the non-life insurance market with a 15.2% market share, followed by Grupo Mutua Madrileña with a 12.9% market share and Allianz with a 6.6% 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 1.5%.

Regulation and supervision

Direccion General de Seguros y Fondos de Pensiones (DGSFP) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to DGSFP on a quarterly basis. Spanish regulations incorporate all requirements of the relevant European Union directives. The local Solvency I requirements are based, respectively, on percentages of the reserves for the life insurance business and of the premiums and 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.

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 compute 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, meaning 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 nature of the risk being reinsured, although the retention limit is in general between EUR 30,000 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 uses only 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.

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

Overview of France

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

Background

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

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

Overview of Variable Annuities Europe

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

Organizational structure

Variable Annuities Europe s legal entity is Aegon Ireland plc. Its main office is located in Dublin, Ireland, with a branch office in Frankfurt, Germany. It operates two business lines: variable annuities and offshore bonds.

Overview of sales and distribution channels

In the United Kingdom, Aegon Ireland does not employ a direct sales force, but works with the local sales forces of the Aegon companies.

In Germany, Aegon Ireland has its own branch office in Frankfurt and employs a direct sales and customer service team.

Sales in France are through La Mondiale.

Variable annuities

Aegon Ireland is a specialist provider of variable annuity products in three European markets the UK, Germany and France with different operating models for each market.

Variable annuities are advised products distributed primarily through financial advisers and banks.

In the UK, Aegon Ireland variable annuities (or unit-linked guarantees) are sold via Aegon UK through banks, financial advisors and the Aegon Retirement Choices (ARC) platform an online service that enables financial advisors to manage their clients investment portfolios.

Aegon Ireland s branch office in Frankfurt sells variable annuities and employs a direct sales and customer service team. Aegon Ireland launched its first variable annuity product (guaranteed lifetime income) in Germany in August 2013. A second variable annuity product (guaranteed capital) was launched in April 2014. Key distribution channels are broker pools and financial advisor networks.

In France, La Mondiale sells a variable annuity product (guaranteed lifetime income), of which the guaranteed lifetime income option is reinsured to Aegon Ireland. It is sold through both La Mondiale s own internal networks and platforms to financial advisors and banks. Aegon announced its decision to sell its 35% stake in La Mondiale Participation on November 24, 2014. The sale was finalized on March 3, 2015.

Offshore bonds

Aegon Ireland offshore bonds are sold exclusively in the UK via Aegon UK and are distributed through the ARC platform, other third-party platforms, banks, and financial advisors.

Overview of business lines

Variable annuities

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

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

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

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

Offshore bonds

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

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

The assets related to this product are segregated for the benefit of policyholders in separate accounts of the insurance company. These separate accounts are classified as investments for the account of policyholders.

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

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

Competition

Variable annuities

There was no significant change between 2013 and 2014 in the competitive environment for variable annuities in Europe, with the ongoing challenging economic and financial conditions limiting new product launches.

In the United Kingdom, Variable Annuities Europe has two competitors, Axa and MetLife, with MetLife leading the market.

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, with AXA leading the market.

Offshore bonds

The UK offshore bond market remains highly competitive. In the third quarter of 2014, Aegon has a year-to-date market share of 5.34%, placing it sixth[1]. The top three providers by market share were Standard Life, Axa Wealth and Legal & General respectively.

Regulation and supervision

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

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

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

1 Source: Association of British Insurers.

Overview of Aegon Asset Management

Aegon Asset Management is an active investment manager that uses its investment expertise to help clients around the world take responsibility for their financial future.

Organizational structure

Aegon Asset Management operates in the United States, the Netherlands, the United Kingdom, Canada, Central & Eastern Europe, Spain, Hong Kong and mainland China. It has 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 solutions. A long and successful history of partnership with Aegon s insurance businesses has enabled Aegon Asset Management to establish experienced investment teams, a solid asset base and proven long-term records;
- **Kames Capital** is a United Kingdom-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 to the Dutch pension market.

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 Industrial Fund Management Company Ltd (China, 49% owned).

Aegon Asset Management is managed by an international board with both global and local roles and responsibilities.

Overview of business lines

Aegon Asset Management manages significant funds on behalf of Aegon insurance companies. Asset inflows are derived from insurance company sales invested in the general account or insurance funds, depending on the product sold. Aegon Asset Management receives funds either in a closed architecture structure (whereby the insurance affiliate seller delegates funds to Aegon Asset Management) or through competition with external asset managers in an open architecture structure (whereby the insurance affiliate seller may choose to delegate funds to an external fund manager other than Aegon Asset Management). Aegon Asset Management also provides solutions to third-party retail and institutional customers that invest through collective investment schemes or segregated mandates.

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

The majority of affiliate sales business consists of funds sold by affiliate insurers where the policyholder return is determined by the investment return of the fund, and the risk is therefore borne by the policyholder rather than Aegon. The 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.

For third-party business, Aegon Asset Management is usually responsible for product design, marketing and distribution, although some third-party business is sourced through co-operative arrangements with insurance affiliates. The retail 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. They employ a full range of asset classes, and manage the funds against objectives, targets and risk profiles agreed with clients. Aegon Asset Management offers both absolute and relative return products. Aegon Asset Management distributes its services and solutions internationally.

Competition in main locations

Aegon Asset Management competes with other asset management companies on insurance platforms to acquire business from open-architecture Aegon insurance units and third parties. Aegon Asset Management s 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. Aegon Asset Management has received strong net inflows into its Dutch mortgage fund.

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.

Regulation and supervision

Aegon Asset Management s global holding company, Aegon Asset Management Holding B.V., is regulated by DNB (the Dutch central bank) as a financial holding company according to the Dutch Act on Financial Supervision. In Europe, regulation for asset management companies is different from that of insurers because it is based on different European Union directives. Aegon Asset Management s underlying operating entities are regulated by their local regulators, including the AFM (Autoriteit Financiële Markten) and DNB for Dutch entities, the FCA (Financial Conduct Authority) for United Kingdom based entities, the SEC (Securities & Exchange Commission) for United States based entities, and the CSRS (Chinese Securities Regulatory Commission) for Chinese-based entities.

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 able to underwrite;
- ¿ Establishing a company-wide framework through which the risk-return trade-off associated with these risks can be assessed;
- ¿ Establishing risk tolerances and supporting policies to limit exposure to a particular risk or combination of risks; and
- ¿ Measuring 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 the Aegon business strategy. The targeted risk profile is determined by customer need, 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, 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 this risk governance are:

¿ 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 at all times of material risk exposure;

¿ 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 three basic layers:

¿ The Supervisory Board (SB) and the Supervisory Board Risk Committee (SBRC);

¿ The Executive Board (EB) and the Management Board (MB); and

¿ The Enterprise Risk Management Committee (ERMC) and the Group Risk & Capital Committee (GRCC).

Additionally, there are working groups and regional committees that support the ERMC and GRCC.

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 Chief Risk Officer (CRO) attends Executive Board meetings and has a direct reporting line to the Supervisory Board to discuss enterprise risk management 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 enterprise risk management, in particular the risk strategy, risk governance, risk tolerance, and material changes in risk methodology and risk policies.

The Supervisory Board Risk Committee is responsible for overseeing Aegon s enterprise risk management framework, including risk governance and measures taken to ensure risk management is integrated properly into the Company s broader strategy. The Supervisory Board Risk Committee 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 to inform the Supervisory Board of any risk that directly threatens the solvency, liquidity or operations of the Company. Details of members of the Supervisory Board Risk Committee can be found on page 94 and 97-98 of this Annual Report.

The Management Board is supported by two committees:

- The Enterprise Risk Management Committee (ERMC), which supports Enterprise Risk Management (ERM) framework development and maintenance, including risk strategy, risk governance, risk tolerance, risk methodology and risk policies; and
- The Group Risk & Capital Committee (GRCC), which, as the primary balance sheet management committee of Aegon, supports risk oversight.

The ERMC can seek advice on significant Enterprise Risk Management framework development work from temporary working groups comprising subject matter experts who represent the Company s businesses. These working groups are established by the Enterprise Risk Management Committee, including their membership, scope of work and deliverables.

The GRCC focuses on managing Aegon s overall solvency and liquidity position, while ensuring that risk taking is within the risk tolerance statements and Group Risk policies. 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 regions.

The responsibilities and prerogatives of the Risk & Capital Committees 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, either at its own initiative or at the request of management.

Group Risk is responsible for development and oversight of compliance with the risk governance framework, risk methodology, risk tolerances and risk policies. This involves identifying risk, particularly operational and emerging risk, in addition to reviewing risk assessments carried out by business units. Group Risk also identifies best risk management practices, facilitates implementation thereof and helps ensure there is consistency in the application of these practices across the Company. In addition, Group Risk performs risk and scenario analyses, either at its own initiative or at the request of management.

Aegon s risk management staff structure is fully integrated. Business unit Chief Risk Officers have a direct reporting line into the Group s Chief Risk Officer or one of the regional Chief Risk Officers that report directly into the Group Chief Risk Officer. Regions include the Americas, the Netherlands, United Kingdom, Central & Eastern Europe, Asia, Spain, Variable Annuities Europe, Aegon Asset Management, and the holding.

Lines of defense

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

The Company s first line of defense, including the business and support functions, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerance and risk policies. The second line of defense, including the risk management function, facilitates and oversees the effectiveness and integrity of enterprise risk management across the Company. The third line of defense, including the audit function, provides independent assurance and challenge regarding the effectiveness and integrity of enterprise risk management across the Company.

Risk management in 2014

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, which have been constructed to test our exposure to identified critical market events or conditions that would present an extraordinary business challenge. These scenarios include events such as economic depression and inflation.

Risk overview 2014

Credit risk

In 2014, credit spreads decreased to the lowest levels seen since the 2008 crises, and Aegon slightly reduced its exposure to credit risk. In the United Kingdom, 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 trended upwards in 2014, with a correction in the third quarter. During 2014, Aegon continued to progress its program of hedging equity risk at its UK pension business, variable annuities, US and Dutch operations 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 251 million in 2014 (2013: EUR 590 million). The Dutch operations further extended hedging of equity volatility risk in the existing equity hedge program.

Interest rate risk

In 2014, long-term swap rates in the United States, United Kingdom and the eurozone decreased by 143 bps, 126 bps and 130 bps to respectively 2.80%, 2.30% and 1.52%. In the United States, interest rate hedges were put in place in the first half of 2014 by implementing forward starting swaps. Also in 2014, the existing interest rate programs remained in place for hedging guarantees for Aegon s operations in the Netherlands, long-term care business in the United States and for the variable annuities businesses in the United States, 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.

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 2014, 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 2014, Aegon made several significant updates to assumptions, including an update to US mortality assumptions. Please refer to note 3 Critical accounting estimates and judgment in applying accounting policies for more information.

Operational risk

Like other companies, Aegon faces risks resulting from operational failures or external events, such as changes in regulations, 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, financial crime and breaches of security. Aegon works on analyses on a continuous basis studying such operational risks and regularly develops contingency plans to deal with them.

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 354-371 of this Annual Report.

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 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, steering of the risk balance and 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 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 money and 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. The department acts under the direction of the Group Risk & Capital Committee.

Capital management

Strategic importance

Aegon s capital management approach plays an important role in supporting the execution of Aegon s strategic priorities. These priorities include the shift of capital to markets that offer higher growth and return prospects, and the shift from spread business to fee business. In addition, the Company is improving its risk profile by further reducing total financial leverage. Disciplined risk and capital management supports Aegon s aim to pay a sustainable dividend to its shareholders.

Improving risk profile

Aegon continues to take measures to improve its risk-return profile and lower overall capital requirements. These measures include, for instance, the continued run-off of Aegon s spread-based institutional business in the United States, 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 ranks among a limited number of insurance companies actively involved in hedging longevity risk.

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

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

¿ Local regulatory requirements;
¿ Standard & Poor s requirements for very strong capitalization for rated entities; and
¿ Any additionally, self-imposed internal requirements.

Aegon s Insurance Group s Directive ratio was 208% on December 31, 2014, down from 212% at the end of 2013, as the negative impact of net redemptions of capital securities and a lower IGD ratio in the Netherlands was only partly offset by a stronger RBC ratio in the Americas.

Solvency II

The introduction of Solvency II will mean a change in the regulatory capital requirements in EU-domiciled legal entities. Solvency II will impact the capitalization levels used to assess capital adequacy of Aegon s business units. Although Solvency II will not be effective until January 1, 2016, the draft Solvency II capital requirements are expected to be taken into consideration by regulators in their supervision of EU-domiciled legal entities before the effective implementation date. As a result, Aegon is monitoring developments of the new capital regime and the impact it could have on business units and capitalization levels.

In assessing the potential impact of Solvency II, Aegon is assuming that the US solvency regime will be granted (provisional) equivalence by the European Commission.

Leverage metrics

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

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

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

- Shareholders equity excluding revaluation reserves and the remeasurement of defined benefit plans;
- 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 and preferred dividends. The fixed charge coverage includes the impact of interest rate hedging.

On December 31, 2014, Aegon s total capitalization was EUR 24.8 billion (EUR 23.1 billion at December 31, 2013), its gross financial leverage ratio was 28.7% (33.3% at December 31, 2013) and its fixed charge coverage was 6.5x (5.2x at December 31, 2013). Aegon targets a gross financial leverage ratio of 26-30% and a fixed charge coverage of 6.0-8.0x, and expects continued deleveraging in 2015 with the proceeds from the sale of the Canadian life insurance business in support of Aegon s commitment to these targets.

Ratings

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

Agency

December 31, 2014	Aegon N.V.	Aegon USA	Aegon the Netherlands	Aegon UK

Standard & Poor s	A-	AA-	AA-	A+
Moody s Investors Service	A3	A1	-	-
Fitch Ratings	A	AA-	-	AA-

Debt funding and back-up facilities

Most of Aegon s debt 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. As of December 31, 2014, Aegon had EUR 107 million and USD 20 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 additional LOC facilities of USD 2 billion, of which USD 1.5 billion matures in 2015 and USD 0.5 billion matures in 2017. 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 and warehouse facilities, 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.

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 that 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 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 operating companies 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, dividends to shareholders and the balance of acquisitions and divestitures. The ability of Aegon s insurance subsidiaries to transfer funds to the holding company is constrained by the need for these subsidiaries to remain adequately capitalized at the levels set by local insurance regulations and as administered by local insurance regulatory authorities.

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

Insurance laws and regulations in local regulatory jurisdictions often contain minimum regulatory capital requirements, e.g. 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.

The minimum regulatory capital requirements for Aegon s main subsidiaries and the actual capitalization levels as per December 31, 2014, are included in the following table:

Capital requirements	Legal/regulatory minimum capital requirement	Actual capitalization	Excess over legal/ regulatory minimum
United States[1)]	100% Authorized Control Level (NAIC RBC ACL)	~1080% of combined ACL	~EUR 6.4 bln
The Netherlands[2)]	100% Solvency I	~215% Solvency I	~EUR 2.3 bln
United Kingdom[3)]	100% Solvency I (Pillar 1)	~140% Solvency I (Pillar 1)	~EUR 0.6 bln

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

2 Excluding the banking activities.

3 Including the With Profits fund at unaudited June 30, 2014 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 on the previous page.

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

As of December 31, 2014, Aegon N.V. held a balance of EUR 1.2 billion in excess capital at group level, compared with EUR 2.2 billion at December 31, 2013, a decrease that mainly reflects the deleveraging initiatives executed during 2014.

Aegon s liquidity is invested in highly liquid assets, in accordance with the Company s internal risk management policies. Aegon believes its working capital, backed by its external funding programs and facilities, is ample for the Company s present requirements.

External dividends

In order to enable equity investors to share in Aegon s performance, Aegon aims to pay out a sustainable dividend, which may increase based on Aegon s performance. After investments have been made in new business to generate organic growth, capital generated by Aegon s operating subsidiaries is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating subsidiaries in line with Aegon s capital management and liquidity risk policies.

Aegon uses cash flows from its operating subsidiaries to pay holding expenses, including funding costs. The remaining cash flow is available to execute Aegon s strategy and to fund dividends on its shares. When determining whether to declare or propose a dividend, Aegon s Executive Board balances prudence with offering an attractive return to shareholders. This is particularly important during adverse economic and/or financial market conditions. Furthermore, Aegon s operating subsidiaries are subject to local insurance regulations that could restrict dividends to be paid to the holding company. There is no requirement or assurance that Aegon will declare and pay any dividends.

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 the individual members of Aegon s Supervisory Board, please see pages 97 and 98). 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 sits with the Supervisory Board, which is advised by its Compensation Committee. This includes the responsibility for designing, approving and maintaining the Aegon 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 can be found on pages 106-110 of this Annual Report and in the Corporate Governance Statement published on Aegon s corporate website.

Composition of the Supervisory Board and Executive Board

Supervisory Board

The composition of the Board is discussed regularly in meetings of the Board, and in particular by the Nominating Committee. An overview of the composition of the Supervisory Board in 2014 can be found on pages 97-98. In 2014, a number of changes took place. Mr. Antony Burgmans stepped down from the Board as per April 1, 2014, in order to comply with the requirements of the Dutch Act on Management and Supervision (Wet bestuur en toezicht). Mr. Kornelis J. Storm resigned as member of the Board on May 21, 2014, at the end of his third and final term. The Board is grateful for the many contributions both members made to Aegon and to the Board.

On May 21, 2014, shareholders approved the appointments of Ms. Corien M. Wortmann-Kool and Mr. Robert W. Dineen to the Board, each for a term of four years.

All members of the Supervisory Board are considered independent under the terms of the Dutch Corporate Governance Code.

Executive Board

The Executive Board consists of two members, Mr. Alexander R. Wynaendts, Chief Executive Officer (CEO), and Mr. Darryl D. Button, Chief Financial Officer (CFO). Mr. Wynaendts current term of four years ends in 2015. Following the recommendation from the Nominating Committee, the Supervisory Board has decided to propose to the shareholders to reappoint him at the Annual General Meeting of Shareholders on May 20, 2015, for a period of four years.

In compliance with the Dutch Corporate Governance Code, members of the Executive Board are appointed by shareholders for a term of four years, with the option of reappointment for additional four-year terms. The appointment schedule for members of the Executive Board is available on Aegon s corporate website, aegon.com[2,3].

Supervisory Board meetings

Attendance

In 2014, the Supervisory Board held a total of seven regular (face-to-face) meetings and six additional conference call meetings. Most members attended all regular Board meetings, of which a detailed overview is provided in the table on the next page.

Most Board meetings were preceded or followed by Executive Sessions meetings of the Supervisory Board without the presence of members of either the Executive or Management Boards. In accordance with Aegon s Supervisory Board Rules, regular Board meetings were preceded by preparatory conference call meetings. These were attended by the Chairman and Vice-Chairman of the Supervisory Board, the Chairman of the Audit Committee, the Chairman of the Risk Committee, and the CEO and CFO who sit on the Company s Executive Board. Aegon s Chief Risk Officer (CRO) usually also participated.

1 www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Corproate-governance-statement.pdf
2 www.aegon.com/Documents/aegon-com/Governance/Governance-documents/EB-and-MB/Appointment-schedule.pdf
3 www.aegon.com/Documents/aegon-com/Governance/Governance-documents/EB-and-MB/Appointment-schedule-EB.pdf

Meetings of the Committees of the Supervisory Board were usually held before the meetings of the full Supervisory Board. Members of Aegon s Executive and Management Boards were present at most of the Supervisory Board meetings held in 2014. At the request of the Supervisory Board, other Company

executives also attended the meetings to provide reports and updates on specific topics. Representatives from Aegon s external auditors PwC also took part in the discussions on the Company s 2014 results.

Name	Regular SB meeting	SB conference call	Audit Committee	Risk Committee	Nominating Committee	Compensation Committee	Combined Audit & Risk Committee
Rob Routs	7/7	6/6	-	-	3/3	6/6	1/1
Irv Bailey	7/7	6/6	3/4	1/1	-	6/6	1/1
Antony Burgmans [1)]	1/2	1/1	2/2	-	-	-	-
Robert Dineen [1)]	4/4	3/3	4/4	3/3	-	-	1/1
Shemaya Levy	6/7	6/6	1/2	3/3	3/3	-	1/1
Kees Storm [1)]	3/3	3/3	-	2/2	1/1	-	-
Ben van der Veer	7/7	6/6	6/6	1/1	2/2	-	1/1
Dick Verbeek	6/7	6/6	5/6	3/4	-	-	0/1
Leo van Wijk	6/7	4/6	-	-	3/3	5/6	1/1
Corien Wortmann-Kool [1)]	4/4	3/3	-	3/3	-	3/3	1/1
Dona Young	7/7	6/6	6/6	4/4	-	-	1/1

[1] Where a Supervisory Board member retired from the SB or stepped down from a Committee or was appointed during the year, only meetings that were held during his / her tenure are taken into account.

Activities

In 2014, Supervisory Board discussions included the following topics:

- Strategy, including Aegon s sustainability program and business reviews;
- Acquisitions, divestments and restructuring of businesses;
- Executive Board and senior management succession planning;
- 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 Group Plan 2015-2017, including the 2015 budget and capital plan;
- Capital position and Solvency II;
- Enterprise risk management;
- Investor relations;
- Legal, regulatory and compliance issues and Aegon s engagement with regulators; and
- Accounting changes.

Highlights

One of the focus areas of the Supervisory Board in 2014 was IT and technological developments in the broadest sense, ranging from IT security, use of data analytics, digitization and getting closer to customers through the application of new technologies. The Board received updates from senior management and from external experts on Aegon s Information Security Program. In addition, on several occasions the Board discussed the

Company s progress with regards to customer centricity with senior management. The Board was kept appraised of the activities of Aegon s Corporate Venture Fund, which aims to identify early trends and new technologies, thereby creating strategic benefits for the Company by accelerating Aegon s digital transformation.

During the strategy offsite meeting in June 2014, the Supervisory Board and the Management Board had extensive discussions about industry trends and the impact of changing rules and regulations on the environment in which Aegon operates. The Board reviewed the progress of the execution of Aegon s strategic objectives, and the challenges the Company is facing. Aegon s IT strategy and the strategic alignment of the current portfolio, together with the role Mergers & Acquisitions (M&A) can play, were also discussed. Part of the meeting included discussions regarding how the market sees Aegon and how it compares with competitors.

Another key theme in 2014 was developments in Solvency II, the new European regulatory framework for insurers and insurance groups. This framework, which will enter into force on January 1, 2016, 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 its requirements. In addition, the Board followed an extensive Solvency II education program.

In December, the Board reviewed Aegon s Sustainability Program, focusing specifically on developments in the US, noting that Aegon is ranked as one of the most sustainable insurance companies in the world and a member of all leading international sustainability indices. Aegon has taken the lead in the move toward integrated reporting, as evidenced by winning the 2014 Building Public Trust award for integrated reporting for Aegon s 2013 Integrated Review. Throughout 2014, the Board regularly discussed aspects of Aegon s approach to sustainability for various business issues. Further details of Aegon s sustainability vision and progress are available in the Aegon Review 2014.

Recognizing the importance of succession planning and talent management, the Board received updates from Aegon s Head of Global HR on progress made in 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. It approved the decision to enter into exclusive talks with La Banque Postale to form an asset management partnership in France, and the divestitures of the equity stake in La Mondiale Participations in France and the Canadian life insurance business.

The Board was pleased that Aegon announced in April that it had reached agreement with BPVH a foundation representing Dutch harbor workers and employers on removing restrictions on the capital of the harbor workers former pension fund Optas Pensioenen N.V., thereby ending a long-lasting dispute. To remove the restrictions required prior approval by the court, which was granted in January 2015. Restrictions may be removed three months from the date of the court ruling in January 2015, after the appeal period expires.

Results and budget

In its meeting of February 19, 2014, the Supervisory Board convened to discuss the results of the fourth quarter of 2013. In March 2014, the Supervisory Board reviewed and adopted Aegon s 2013 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 2014 results respectively.

On December 16, 2014, at a meeting in Cedar Rapids, Iowa (USA), the Board and management reviewed the Group Plan 2015-2017, including the budget for 2015. The Board took note of the uncertainties and challenges in the coming years as described in the Plan, among others: increased regulatory requirements (e.g. Solvency II), low interest rates, digital developments and the changing distribution landscape. The

Board discussed the 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 Group Plan and approved the budget for 2015. The Board also approved the 2015 Capital Plan and authorized the Executive Board to fulfill Aegon s budgeted funding needs. The 2015-2020 strategy process, which was launched at the end of 2014, will be discussed on a regular basis by both the Management Board and Supervisory Board.

Legal and compliance

In 2014, the Supervisory Board and the Audit Committee discussed with management, the General Counsel and the Global Head of Compliance and Operational Risk Management a number of compliance, regulatory and legal issues from Europe, the United States and Asia. In particular, the Board discussed the latest developments with regard to the issue of unit-linked policies in the Netherlands. The Board also followed up on specific issues with regulators in the United Kingdom and Poland.

The Chairman of the Board and the Chair of the Risk Committee met with officials from Aegon s primary regulator, De Nederlandsche Bank (DNB, the Dutch Central Bank) and monitored management engagement with regulators in the United States, the United Kingdom and in other countries.

As discussed with the Supervisory Board, Aegon has developed a Recovery and Crisis Management Plan, the aim of which is to help give direction to management during a crisis situation. The Board discussed and adopted the plan, after it had been reviewed by the Risk Committee.

Aegon has had many of the elements essential to an effective Recovery and Crisis Management Plan in place since 2011. Aegon formulated its Recovery and Crisis Management Plan in accordance with DNB guidelines, ensuring that the plan is also well aligned with its internal Enterprise Risk Management Framework and Capital Management Framework, and that it takes Aegon s first-hand experience in managing through challenging periods in the past into account.

Finally, in compliance with regulations in the Netherlands, all members of the Board took or made the financial sector oath, aimed at reinforcing the focus on the interests of Aegon s customers.

Educational sessions and Board review

The Board and its Committees received updates and presentations on topics ranging from Solvency II and investor relations, to developments in information security and reinsurance. The Audit Committee, joined by several other members of the Board, held a meeting that focused on the business and strategy in the Netherlands, also addressing the product suite and IT, financial and risk management topics.

In 2014, the Supervisory Board undertook an extensive Board self-evaluation. The Chairman, supported by the Company Secretary, interviewed each member of the Board on the basis of a completed written questionnaire. The review assessed the collective performance of the Board and its Committees, and the performance of the Chairman. The Supervisory Board met to review the results in the absence of management. The Board agreed that it had continued to make progress in 2014, 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.

The performance of the members of the Executive Board was discussed regularly during 2014 at Executive Sessions, and at a dedicated meeting of the Nominating Committee in December. In February 2015, the Supervisory Board reviewed the performance of individual members of the Management Board.

No transaction with a potential or actual conflict of interest was reported by members of the Board in 2014.

Supervisory Board Committees

The Supervisory Board has four Committees to discuss and prepare items for decision by the full Board. Each Committee s members are drawn from the Supervisory Board. The Committees report their findings to the Supervisory Board at Supervisory Board meetings.

The four Committees are the:

- Audit Committee;
- Risk Committee;
- Nominating Committee; and
- Compensation Committee.

As on December 31, 2014, the composition of the Committees is as follows:

Audit Committee: Ben van der Veer (Chair), Irving W. Bailey II, Robert W. Dineen, Dirk P.M. Verbeek, Dona D. Young.

Risk Committee: Shemaya Levy (Chair), Robert W. Dineen, Dirk P.M. Verbeek, Corien M. Wortmann-Kool, Dona D. Young.

Nominating Committee: Robert J. Routs (Chair), Shemaya Levy, Ben van der Veer, Leo M. van Wijk.

Compensation Committee: Leo M. van Wijk (Chair), Irving W. Bailey II, Robert J. Routs, Corien M. Wortmann-Kool.

Committee meetings are open to all members of the Board, regardless of membership of the Committees. The Chairman aims to attend all meetings in whole or in part.

The Audit Committee

The Audit Committee held seven meetings in 2014, one of which was a combined meeting with the Risk Committee of the Supervisory Board. One meeting focused on Aegon s Dutch business and strategy in the Netherlands, in addition to addressing financial, accounting and risk management topics.

The Audit Committee meetings were attended by Aegon s CFO, the Corporate Controller, the Chief Risk Officer and the internal auditor. Representatives from Aegon s external auditors EY and PwC also attended these meetings. Members of Aegon s Group Risk, Group Legal, Investor Relations and actuarial departments were present at some of the meetings.

The Committee discussed and approved the external auditor s engagement letter and the audit plan for 2014. Throughout 2014, business unit managers provided various topic updates to the Audit Committee. The combined meeting with the Risk Committee in December focused on IT security, Solvency II, tax policy and specific topics regarding the business in the US: variable annuities hedging, reinsurance and actuarial assumption setting.

The internal auditor attended six out of seven Audit Committee meetings in 2014, and provided quarterly updates on the activities of the internal audit function, together with details of progress on internal audits. The Audit Committee approved the Internal Audit Plan. The Audit Committee also held private sessions with the internal auditor and the external auditor to discuss their findings. Members of the Executive Board were not present at these sessions.

The Audit Committee also discussed Aegon s compliance with the US Sarbanes Oxley Act, and regular reports from the Global Head of Compliance and Operational Risk Management on operational risk issues such as fraud and general compliance issues. In addition, the Committee reviewed quarterly legal updates.

The Committee confirmed that all of its members qualify as independent by the Rule 10A-3 of the SEC and it also confirmed that Mr. Ben van der Veer qualifies as a financial expert within the terms and conditions of both the Dutch Corporate Governance Code and the Sarbanes Oxley Act in the United States.

The Risk Committee

The Risk Committee assists the Supervisory Board and Audit Committee in overseeing the application of Aegon s Enterprise Risk Management (ERM) framework. The Committee also advises the Supervisory Board on the Company s risk management strategy and policies. For this reason, the Committee regularly reviews the Company s ERM framework, risk exposures and compliance with company risk policies.

The Risk Committee convened five times in 2014, including the combined meeting with the Audit Committee. During the annual strategy offsite meeting in London, the Committee members met with the Chief Risk Officer of Aegon UK.

The Company s Group Chief Risk Officer and the members of Aegon s Executive Board attended all meetings. Recurring items on the agenda in 2014 were the quarterly risk dashboard and the Board risk list. The Risk Committee also discussed risk priorities for 2014 and Aegon s risk strategy. The Committee reviewed the Company s Pricing Compliance report and discussed extreme event scenarios, business continuity management and the progress of the model validation project. It also approved the Recovery and Crisis Management Plan as referred to above. Aegon Asset Management provided insight into developments in Aegon s general account investment portfolio to the Committee.

The Nominating Committee

Aegon s Nominating Committee held three meetings in 2014. The CEO and/or the Global Head of Human Resources attended these meetings in whole or in part.

The Nominating Committee discussed the composition of the Supervisory Board and its Committees, and current and upcoming vacancies. The Committee prepared decision-making on the proposal to appoint Ms. Corien M. Wortmann-Kool and Mr. Robert W. Dineen to the Supervisory Board, as approved by the shareholders on May 21, 2014. When making these recommendations for appointments, the Nominating Committee determined that they were in line with the Supervisory Board Profile as set by the Board and published on Aegon s corporate website.

In 2014, the members of the Committee reviewed and interviewed a number of candidates for upcoming vacancies. The Board expects to propose the appointment of one new member for a term of four years to shareholders at the Annual General Meeting of Shareholders in 2015. The Board is of the opinion that with this proposed appointment its composition will continue to meet the requirements of the Supervisory Board Profile.

During the year, the Committee reviewed the composition of the Executive Board and Management Board and the functioning of their members. 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 the Executive Board, Management Board and senior management level in the event of emergency, and when positions open up in the future. The CEO also discussed changes in the global senior management team with the Nominating Committee during the year. The Committee was kept appraised

of developments in employee engagement, talent management and international mobility. In February 2014 and again 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 Global Employee Survey, which was conducted in January 2015.

Enhancing gender diversity in both the Executive and Supervisory Board is an important issue for Aegon. The Executive Board consists of two members. 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 a balanced Executive Board composition.

The 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). As a result of the appointment of Ms. Corien M. Wortmann-Kool in 2014, the gap with 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 Compensation Committee

The Compensation Committee held six meetings in 2014, 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. The scope of the Compensation Committee has increased in recent years as a result of new regulations promulgated by the European Union the Capital Requirements Directive III and IV (CRD III and IV) and the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors/European Banking Authority. CRD III and IV have been implemented by way of the Decree on Sound Remuneration Policy (Regeling Beheerst Beloningsbeleid Wft 2011-Rbb) issued by DNB (the Dutch Central Bank).

In 2014, the Compensation Committee oversaw the application and implementation of Aegon s Global Remuneration Framework and the various policies and related procedures, including the Remuneration Policy for Identified Staff. This included setting the 2014 targets, allocating the 2013 variable compensation, the scenario analysis of payout levels under the Executive Board Remuneration Policy, 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. In addition, the Committee discussed the results of the review by the Internal Audit Department on the application in 2014 of the Remuneration Framework.

1 www.aegon.com/Documents/aegon-com/Governande/Governance-documents/SB/Profile-SB.pdf

During the year, the Committee considered advice from independent external consultant, Towers Watson, on specific topics and ascertained that these consultants did not also advise the members of the Executive Board.

A recurring topic was executive remuneration, particularly in the context of the draft legislation applicable to remuneration in the financial services sector in the Netherlands (Wet beloningsbeleid financiële ondernemingen) announced at the end of 2013. The Dutch Government intends to use this new legislation to introduce a broad set of rules to ensure that financial services companies conduct sound remuneration policies and avoid payment of excessive variable remuneration. In addition, the legislation intends to harmonize existing remuneration rules applicable to financial services companies in the Netherlands. The most important feature of the legislation is the introduction of a bonus cap of 20% of fixed pay on variable remuneration across the financial industry in the Netherlands. The Compensation Committee reviewed and discussed the legislation and its consequences for Aegon s remuneration practices. The new legislation has been adopted by the Dutch Senate on January 27, 2015 and came into effect on February 7, 2015.

During meetings in August and November, the Committee supported early proposals for amending Aegon s Remuneration Framework in 2015, in part in order to meet legal/regulatory changes, but also due to management s wish to simplify the Framework and improve its consistency.

The Committee also discussed developments with regard to pension accrual in the Netherlands, and the impact on remuneration of employees in the Netherlands.

Annual Accounts

This Annual Report includes the Annual Accounts for 2014, prepared by the Executive Board, discussed by both the Audit Committee and the Supervisory Board, signed by the members of the Executive Board and the Supervisory Board, and submitted for adoption to the shareholders. The Supervisory Board recommends that the shareholders adopt the Annual Accounts.

Acknowledgement

The members of the Supervisory Board are grateful for the work undertaken by members of the Executive and Management Boards in order to meet Aegon s strategic goals. In addition, the Board members wish to thank Aegon s employees for their hard work and dedication serving millions of Aegon customers across the world.

The Board also expresses its thanks to Aegon s business partners and many valued customers for their continued confidence in the Company.

Finally, the Board thanks Aegon s investors for their continued confidence and trust in the Company.

The Hague, the Netherlands, March 18, 2015.

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 Nominating Committee

Member of the Compensation 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 Compensation 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 member of the Board of Directors of Hospira, Inc., in addition to being a senior adviser 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 (LFN) and a member of the Senior Management Committee of Lincoln Financial Group (LFG), before retiring in 2013. Before joining Lincoln Financial Group, Mr. Dineen was Senior Vice President and head of Merrill Lynch s Managed Asset Group. He was appointed to Aegon s Supervisory Board in May 2014, and his current term will end in 2018. He has no other board memberships.

Shemaya Levy (1947, French)

Chairman of the Risk Committee

Member of the Nominating 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 (not listed).

Ben van der Veer (1951, Dutch)

Chairman of the Audit Committee

Member of the Nominating 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 Royal Imtech N.V., and a non-executive member of the Boards of Reed Elsevier N.V. and Reed Elsevier PLC. He is also a member of the Supervisory Board of Royal FrieslandCampina N.V. (not listed).

Dirk P.M. Verbeek (1950, Dutch)

Member of the Audit Committee

Member of the Risk Committee

Dirk P.M. Verbeek is Vice President Emeritus of Aon Group. Mr. Verbeek was appointed to Aegon s Supervisory Board in 2008 and his current term ends in 2016. He is also Chairman of the Supervisory Board of Robeco Groep N.V. (not listed) and a member of the Supervisory Board of Aon Groep Nederland B.V. (not listed). Furthermore, he is advisor to the President and Chief Executive Officer of Aon Corporation, and 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 Re/developers (not listed) and Chairman of the INSEAD Dutch Council.

Leo M. van Wijk (1946, Dutch)

Chairman of the Compensation Committee

Member of the Nominating Committee

Leo M. van Wijk is former President and CEO of KLM Royal Dutch Airlines N.V. He was first appointed to Aegon s Supervisory Board in 2003, and his current and final term will end in 2015. Mr. Van Wijk is also member of the Board of Directors of Air France-KLM S.A., Vice-Chairman of the Supervisory Board of Ajax N.V. and Chairman of the Governing Board of Skyteam.

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Corien M. Wortmann-Kool (1959, Dutch)

Member of the Risk Committee

Member of the Compensation 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) and is Vice-Chairman of the EPP. She was appointed to Aegon s Supervisory Board in May 2014 and her current term will end in 2018. Ms. Wortmann-Kool 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. Ms. Wortmann-Kool was appointed Chairman of the Board of Stichting Pensioenfonds ABP (ABP), the Dutch public sector collective pension fund, on January 1, 2015.

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 at the time of 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 (not listed).

Remuneration Report

Global Remuneration Principles

The Aegon Group Global Remuneration Principles provide the foundation for remuneration policies and practices throughout the Aegon Group. 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 the long-term interests of Aegon; 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 Group and business units (internally equitable); avoiding any discrimination in Aegon s remuneration structures, including, among others, discrimination based on nationality, race, gender, religion, sexual orientation, and/or cultural beliefs (internally equitable); creating global alignment in the total compensation of all Identified Staff (internally equitable); aiming at controlled market competitive remuneration, by providing total compensation packages in line with an appropriately established peer group at regional unit, country and/or functional level (externally equitable); 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 imbedded 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 2010 Guidelines on Remuneration Policies

and Practices by the Committee of European Banking Supervisors (CEBS, now the European Banking Authority, EBA) and the Decree on Sound Remuneration Policy (Regeling beheerst beloningsbeleid (Rbb) Wft 2014) from the Dutch Central Bank (DNB).

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 Wet beloningsbeleid financiële ondernemingen (Wbfo, new legislation which has been adopted by the Dutch Senate on January 27, 2015 and which came into effect on February 7, 2015), Aegon has aligned its GRF and related policies and practices to bring them into line with anticipated new regulations announced by the Dutch government. Amongst 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 is compliant with the Wbfo as of the official date that the Wbfo has become effective in the Netherlands. This new legislation in the Netherlands will have a significant impact on policies and practices related to recruitment and retention of staff, not just in the Netherlands but also globally. As per the legislation, Aegon will also apply this legislation to its foreign subsidiaries. In particular, in the UK in addition to outside Europe, the Company is challenged to explain the competitiveness of Aegon remuneration practices in comparison with its competitors in the local labor market. This is because insurance firms outside the Netherlands are not subject to these European (banking) regulations, nor to the stricter Dutch legislation regarding the remuneration in the financial sector.

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[1]); 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 Global Remuneration Framework 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, restricting their sale for a further one to three years. Variable compensation already paid out may be retrieved under certain circumstances (Claw-back).

More detailed information is provided in the following sections regarding the compensation practice for the Supervisory Board and Executive Board.

Supervisory Board Remuneration Policy 2014

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 Compensation Committee[2]

Fees and entitlements

Members of the Supervisory Board are entitled to the following:

- A base fee for membership of the Supervisory Board. No separate attendance fees are paid to members for attendance at the regular Supervisory Board meetings;
- An attendance fee for each extra Board meeting attended, be it in person or by video and/or telephone conference;
- A committee fee for members on each of the Supervisory Board s Committees;
- An attendance fee for each Committee meeting attended, be it in person or through video and/or telephone conference; and
- An additional fee for attending meetings that require intercontinental travel between the Supervisory Board member s home location and the meeting location.

Each of these fees is a fixed amount. Members of Aegon s Supervisory Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the Company. These measures are designed to ensure the independence of Supervisory Board members and strengthen the overall effectiveness of Aegon s corporate governance.

1 In accordance with the Dutch Regulation on Sound Remuneration, the annual disclosure of Identified Staff remuneration can be found on http:// www.aegon.com/en/Home/Investors/Governance/General-Governance.
2 Members of the Compensation Committee are as follows: Leo M. van Wijk (chair); Irving W. Bailey II; Robert J. Routs; Corien M. Wortmann-Kool.

Under the current policy, approved by shareholders on May 15, 2013, members of the Supervisory Board are entitled to the following payments:

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

Fee for membership of a Supervisory Board committee	EUR / year
Chairman of the Audit Committee	13,000
Member of the Audit Committee	8,000
Chairman of other committees	10,000
Member of other committees	5,000

Attendance fees	EUR / year
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, Nominating, Compensation and Risk can be found on page 94, 97 and 98.

Supervisory Board Remuneration Report 2014

Members of Aegon s Supervisory Board received the following payments (in EUR) in 2014:

in EUR	**2014**	2013
Robert J. Routs	134,000	140,000
Irving W. Bailey, II	122,750	136,250
Robert W. Dineen (as of May 21, 2014)	70,125	-
Shemaya Levy	94,125	112,000
Ben van der Veer	104,125	105,000
Dirk P.M. Verbeek	92,000	105,000
Leo M. van Wijk	86,000	97,000
Corien M. Wortmann-Kool (as of May 21, 2014)	55,250	-
Dona D. Young (as of May 15, 2013)	118,000	77,125
Total for active members	**876,375**	**772,375**
Antony Burgmans (up to April 1, 2014)	15,000	87,000
Karla M.H. Peijs (up to September 30, 2013)	-	71,500
Kornelis J. Storm (up to May 21, 2014)	33,750	91,000
Total remuneration	**925,125**	**1,021,875**
VAT liable on Supervisory Board remuneration	194,276	200,981
Total	**1,119,401**	**1,222,856**

Not included in the table above is a premium for state health insurance paid on behalf of Dutch Supervisory Board members. Remuneration for Supervisory Board members is as of 2014 Dutch VAT liability compliant.

Executive Board Remuneration Policy 2014

Executive Board remuneration

The Executive Board of Aegon 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 the 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.

Role of the Compensation Committee

The Compensation Committee of Aegon s Supervisory Board has responsibility for the review of 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 Compensation 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 adviser, Towers Watson. The advisor does not, however, advise individual members of the Executive and Supervisory Boards.

The Compensation 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 Compensation 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 assets, revenue and market capitalization);
¿ Geographic scope (preferably companies operating globally); and
¿ Location (companies based in Europe).

In 2014, the peer group comprised Aviva, Axa, CNP Assurances, Generali, ING Group, Legal & General, Münchener Rückversicherung, Old Mutual, Prudential plc., Standard Life,

Swiss Re, and Zurich Financial Services. The peer group will be reviewed in 2015.

In addition, to monitor alignment with the general industry in the Netherlands, a reference group has been established, comprising the 12 leading companies listed on Euronext Amsterdam, excluding financial services providers. The Supervisory Board regularly reviews the composition of these two groups to ensure that they continue to provide a reliable and suitable basis for comparison.

Total compensation

For each member of the Executive Board, Aegon s Supervisory Board determines a maximum total compensation, reflecting the specific roles and responsibilities of the individual. Each year, the Supervisory Board reviews total compensation levels to ensure they remain competitive and provide proper, risk-based incentives to members of Aegon s Executive Board. At present, the Executive Board Target Direct Compensation (defined as base salary plus variable compensation) is below the median of the international market. To ensure Executive Board members are compensated in accordance with the desired market positioning, the 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 (Compensation Committee) has discussed and endorsed the 2014 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 Executive Board members commitment to the Company s objectives and strengthens the Executive Board members commitment to the Company s 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, Audit, Human Resources and Compliance departments.

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 Compensation Committee and validated by the full Supervisory Board.

For 2014, 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 through 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 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 vest) 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 table below). This part will be paid 50% in cash (=200) and 50% in shares vesting immediately (=200 /[1] = 29 shares). The remaining 600 is deferred and vests according to a pre-defined schedule.

Variable compensation 2014

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 75%-25%.

1 Based on VWAP December 15, 2013 January 15, 2014.

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Objectives	Maximum % of variable compensation	Performance indicator
Group financial IFRS based	30%	Group underlying earnings after tax, return on equity
		Group market consistent value of new business 2014,
Group financial risk adjusted based	30%	group pre-tax return on required capital 2014
Group sustainability / Strategy	15%	Objective measuring corporate responsibility and Strategy
		Individual basket of strategic and personal objectives related to
Personal objectives	25%	Aegon s strategy

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

At an aggregate level, payments are made as follows:

- 50% of the maximum variable compensation if the threshold target is reached;
- 80% if the pre-determined performance targets are met; and
- Up to 100% if the targets are exceeded.

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 is 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:

- ¿ Outcome of a re-assessment of the performance against the original financial performance indicators;
- ¿ Significant downturn in the Company s financial performance;
- ¿ Evidence of misbehavior or serious error by the participant;
- ¿ Significant failure in risk management; and
- ¿ Significant changes in the Company s economic or regulatory capital base.

The Supervisory Board asks the Compensation Committee to review these criteria in detail at each moment of vesting and 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 reclaim 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 in line with local practices in their countries of residence, and with executives from other multinational companies in those countries. Similarly, benefits offered are consistent with Executive Board members contractual agreements, local practices and comparable arrangements at other multinationals. 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 employment

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.

Mr. Wynaendts has a contract of employment with Aegon N.V. Mr. Button was appointed after the new law on governance and supervision (Wet Bestuur en Toezicht) came in to force in January 2013. An Engagement Agreement was therefore agreed between him and Aegon N.V., rather than a contract of employment. His employment by Transamerica Life Insurance therefore continues while he is seconded on an expatriate assignment to the Netherlands.

Members of the Executive Board may terminate their employment with a notice period of three months. The Company must give six months notice if it wishes to terminate the employment of a member of its Executive Board.

The employment arrangements with current members of the Executive Board contain provisions for severance payments in the event that their employment be terminated as a result of a merger or takeover. The Supervisory Board has taken appropriate steps to ensure the contractual 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 2014, Aegon s Executive Board had two members:

- Alexander R. Wynaendts, Chief Executive Officer and Chairman of the Executive Board. Mr. Wynaendts was appointed member of the Executive Board in 2003 for four years, and re-appointed in 2007. At the General Meeting of Shareholders in 2011, Mr. Wynaendts was re-appointed for an additional four years.
- Darryl D. Button, Chief Financial Officer and member of the Executive Board, was appointed 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. Wynaendts was increased in 2014, to further align his compensation towards the desired market position. The fixed compensation of the CFO remained unchanged in 2014.

Member	2014	2013
Alexander R. Wynaendts CEO & Chairman EB	1,154,071	1,049,156
Darryl D. Button CFO & Member EB[1)]	752,559	474,789
Jan J. Nooitgedagt CFO & Member EB (retired)[2)]	-	433,959

[1] Mr. Button was appointed as CFO and member of Aegon s Executive Board per May 15, 2013. Fixed compensation is disclosed for the period that Mr. Button has been part of the Executive Board

[2] Mr. Nooitgedagt s fixed compensation is reflective of his time with Aegon till retirement as per August 1, 2013

Conditional variable compensation awards 2014

Subject to the adoption of the annual accounts at the General Meeting of Shareholders on May 20, 2015, 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 2014 company budgets. Actual performance is measured over 2014. Under the Executive Board Remuneration Policy 2011, the variable compensation that Executive Board members are entitled to is paid out over a number of years.

Over the performance year 2014, Mr. Wynaendts was awarded EUR 913,286 in total conditional variable compensation. Mr. Button was awarded EUR 600,241.

Forty percent of variable compensation related to performance year 2014 is payable in 2015. This is split 50/50 in a cash payment and in an allocation of shares.

For 2015, Mr. Wynaendts and Mr. Button are eligible to receive a cash payment of EUR 182,657 and EUR 120,048 respectively.

The number of shares to be made available in 2014 is 27,105 for Mr. Wynaendts and 17,302 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 2014 (60% of the total, which for

Mr. Wynaendts equates to EUR 273,986 and 40,656 shares, and for Mr. Button equates to EUR 180,072 and 25,956 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 2016, 2017 and 2018, 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 2014 has been adjusted downwards in 2014.

No circumstances have been identified to lower payout of the deferred payment from prior performance years that vest in 2015 (the so called ex-post assessment) or to lower the payout of the up-front payment of the 2014 performance year variable compensation that vests in 2015 (the so called ex-ante assessment).

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[1].

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, North America and the United Kingdom. Aegon s largest shareholder is Vereniging Aegon, a Dutch association with a special purpose, to protect the broader interests of the Company and its stakeholders.

General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year and, if deemed necessary, the Supervisory or Executive Board of the Company has the authority to convene an Extraordinary General Meeting of Shareholders. The main function of the General Meeting of Shareholders is to decide matters such as the adoption of annual accounts, the approval of dividend payments and (re) appointments to the Supervisory Board and Executive Board of Aegon.

Convocation

Meetings are convened by public notice at least 42 days before the meeting. The convocation states the time and location of the meeting, the record date, the agenda items, and the procedures for admittance to the meeting and representation at the meeting by means of a written proxy. Those shareholders who alone or jointly represent at least 1% of Aegon s issued capital or a block of shares worth at least EUR 100 million may request items be added to the agenda of a General Meeting of Shareholders. In accordance with Aegon s Articles of Association, such a request will be granted if it is received in writing at least 60 days before the meeting, and if there are no important interests of the Company that dictate otherwise.

Record date

The record date is used to determine shareholders entitlements with regard to their participation and voting rights. In accordance with Dutch law, the record date is 28 days before the day of the General Meeting of Shareholders.

Attendance

Every shareholder is entitled to attend the General Meeting to speak and vote, either in person or by proxy granted in writing. This includes proxies submitted electronically. All shareholders wishing to take part must provide proof of their identity and shareholding, and must notify the Company ahead of time of their intention to attend the meeting. Aegon also solicits proxies from New York registry shareholders in line with common practice in the United States.

Voting at the General Meeting

At the General Meeting, each common share carries one vote. In the absence of a Special Cause, Vereniging Aegon[2] also 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 Board

Members of the Supervisory Board are appointed by the General Meeting of Shareholders, following nomination by the 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 members 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:

¿ Audit Committee;
¿ Risk Committee;
¿ Compensation Committee; and
¿ Nominating Committee.

1 For further details on how Aegon s corporate governance practices differ from those required of US companies under New York Stock Exchange standards please refer to the NYSE listing standards in the Governance section of Aegon s website at aegon.com

2 For more details, please see Major shareholders on pages 299-302.

Executive Board

Aegon s Executive Board is charged with the overall management of the Company and is therefore responsible for achieving Aegon s aims, strategy and associated risk profile, as well as overseeing any relevant sustainability issues and the development of the Company s earnings. Each member has duties related to his or her specific area of expertise.

Aegon s Articles of Association determine that for certain decisions the Executive Board must seek prior approval from the Supervisory Board and/or the approval of the General Meeting of Shareholders. In addition hereto, 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 R. Wynaendts, who is Chief Executive Officer and Chairman of the Executive Board, and Darryl D. Button, who is Aegon s Chief Financial Officer 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 employment contract with Mr. Wynaendts contains a provision entitling him to severance payments, should his employment be terminated as a result of a merger or takeover. The engagement agreement between Mr. Button and Aegon does not entitle him to any special terms under these circumstances. 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, 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 2014, a total of 2,145,947,511 common shares and 581,325,720 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. The voting rights attached to common shares B are subject to restrictions, however, under which Vereniging Aegon may cast one vote for every 40 common shares B it holds in the absence of a Special Cause[3].

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 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, 2014, Vereniging Aegon, Aegon s largest shareholder, held a total of 292,687,444 common shares and 581,325,720 common shares B.

Under the terms of the 1983 Merger Agreement[4] 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%.

1 As a result of a change in Dutch Corporate law, with effect of January, 1 2013, new members of the Executive Board will not be employees of the Company but will enter into engagement agreements with the Company regarding their position as member of the Executive Board. Mr. Button works for the Company on the basis of an engagement agreement. Mr. Wynaendts, who was appointed before this law came into effect, is still an employee of the Company. The reappointment of Mr. Wynaendts for another term of four years will be proposed at the 2015 annual General Meeting of Shareholders. If the shareholder resolves to reappoint Mr. Wynaendts, his employment agreement will be terminated and an engagement agreement will be entered into between Mr. Wynaendts and the Company.

2 For an overview of the members of the Executive Board and of the Management Board, please refer to page 6 and 7.

3 For further information, please see here under for the description of special control rights.

4 The 1983 Merger Agreements, as amended in May 2013, is published on Aegon s corporate website (aegon.com - http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Amended-merger-agreement-English.pd

To Aegon s knowledge, there are two other parties which hold a capital and voting interest in Aegon N.V. in the excess of 3%. These are the two US-based investment management firms Dodge & Cox and FMR.

Dodge & Cox and FMR are holders of common shares which have no special rights attached to it. 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 3.1% of the capital issued as at December 31, 2014. On February 13, 2015, Dodge & Cox s filing with the United States Securities and Exchange Commission (SEC) shows that Dodge & Cox holds 242,671,430 common shares, representing 9.1% of the issued capital, and has voting rights for 236,832,861 shares, representing 8.8% of the votes. The SEC filing also shows that of this number of shares Dodge & Cox International Stock Fund holds 125,227,471 common shares, which represents 4.6% of the issued capital as at December 31, 2014. The remainder of the common shares registered in name of Dodge & Cox with the SEC are held by Dodge & Cox on behalf of its other clients, including investment companies registered under the Investment Company Act of 1940 and other managed accounts.

Based on its last filing with the Dutch Autoriteit Financiële Markten on August 27, 2014 FMR stated to hold 113,707,413 commons shares, representing 4.2% of the issued capital, and stated to hold 107,092,451 voting shares, representing 3.9% of the votes. On February 13, 2015, FMR s filing with the SEC shows that FMR holds 111,693,771 common shares, representing 4.2% of the issued capital and has voting rights for 14,662,935 shares, representing 0.5% of the votes.

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[1] entered into between Vereniging Aegon and Aegon ensures that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon will no longer be 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; and
- 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[2]

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).

Exercise of option rights

Senior executives at Aegon companies and some other employees are granted share appreciation rights and share options. For further details, please see note 14 of the notes to Aegon s consolidated financial statements of this Annual Report. Under the terms of existing share plans Aegon cannot influence the exercise of granted rights.

1 The Voting Rights Agreement is published on Aegon s corporate website (aegon.com - http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Voting-Rights-Agreement-English.pdf).
2 For more details, please refer to clause 14A of Aegon s Articles of Association (http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Articles-of-Association-English.pdf) or clause 10.6 of the 1983 Amended Merger Agreement (http://www.aegon.com/Documents/aegon-com/Governance/Governance-documents/Amended-merger-agreement-English.p

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. Providing at least two candidates are nominated, these nominations are binding. The General Meeting of Shareholders may cancel the binding nature of these nominations with a majority of two-thirds of votes cast, representing at least one half of Aegon s issued capital. The General Meeting may, in addition, bring forward a resolution to appoint someone not nominated by the Supervisory Board. Such a resolution also requires a two-thirds majority of votes cast representing at least one half of Aegon s issued capital.

Members of Aegon s Supervisory and Executive Boards may be suspended or dismissed by the General Meeting of Shareholders with a two-thirds majority of votes cast, representing at least one half of Aegon s issued capital, unless the suspension or dismissal has first been proposed by the Company s Supervisory Board. A member of the Executive Board may also be suspended by the Supervisory Board, although the General Meeting of Shareholders has the power to annul this suspension.

Amending the Articles of Association

The General Meeting of Shareholders may, with an absolute majority of votes cast, pass a resolution to amend Aegon s Articles of Association or to dissolve the Company, in accordance with a proposal made by the Executive Board and approved by the Supervisory Board.

Dutch Corporate Governance Code

Aegon, as a company based in the Netherlands, 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.2.8

For members of the Executive Board, the Dutch Corporate Governance Code requires that the maximum compensation in the event of dismissal is one year s salary. If the maximum of one year s salary is manifestly unreasonable for a member of the Executive Board who is dismissed during the first term of office, the board member will be eligible for severance pay not exceeding twice the annual salary.

Aegon s position on Code II.2.8

Aegon is committed to applying this best practice provision to all new Executive Board appointments. This best practice provision is also embedded in the Company s Remuneration Policy for the Executive Board. The employment agreement of Aegon s CEO, Alexander R. Wynaendts, which already existed prior to the code coming into force in 2003, contains more favorable severance payment terms should his employment be terminated as a result of a merger or takeover. As a result of a change in Dutch Corporate law, with effect of January 1, 2013, new members of the Executive Board will not be employees of the Company but will enter into engagement agreements with the Company regarding their position as member of the Executive Board.

On the Annual General Meeting of 2015 it will be proposed to reappoint Mr. Wynaendts for another term of four years. If the shareholder resolves to reappoint Mr. Wynaendts, his employment agreement will be terminated and an engagement agreement will be entered into between Mr. Wynaendts and the Company. This new engagement agreement will be compliant with the best practice provision II.2.8 of the Dutch Corporate Governance Code.

The engagement agreement in place between Mr. Button and Aegon N.V. does not entitle Mr. Button to any special terms under these circumstances.

Code II.3.3

The 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

Aegon s CEO and CFO are also members of the Executive Committee of the Company s largest shareholder, Vereniging Aegon. This may be construed as a conflict of interest. However, 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 from this, the Supervisory Board has decided that, in the absence of any hostile action, it will only make nominations for appointment of members to the Executive and Supervisory Boards that are non-binding in nature.

Corporate Governance Statement

For an extensive review of Aegon s compliance with the Dutch Corporate Governance Code, please refer to the Corporate Governance Statement on Aegon s corporate website.

Differences between Dutch and US company laws

Dutch company law is different from US law in the following respects: Aegon, like most large Dutch public companies, has a two-tier governance system comprising an Executive Board and a Supervisory Board. The Executive Board is the executive body and its members are employed by the Company[1]. 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 employment 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.

1 As a result of a change in Dutch Corporate law, with effect of January 1, 2013, new members of the Executive Board will not be employees of the Company but will enter into engagement agreements with the Company regarding their position as member of the Executive Board. Mr. Button works for the Company on the basis of an engagement agreement. Mr. Wynaendts, who was appointed before this law came into effect, is still an employee of the Company. The reappointment of Mr. Wynaendts for another term of four years will be proposed at the 2015 annual General Meeting of Shareholders. If the shareholder resolves to reappoint Mr. Wynaendts, his employment agreement will be terminated and an engagement agreement will be entered into between Mr. Wynaendts and the Company.

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. The Code of Conduct applies to Aegon employees worldwide, including Aegon s Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions.

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 s website, aegon.com.

Controls and procedures

A. Disclosure controls and procedures

As of 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 and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, the disclosure controls and procedures were effective in providing reasonable assurance regarding the reliability of financial reporting.

B. 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 being 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, 2014.

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 has concluded that, in all material aspects, the internal control over financial reporting was effective as at December 31, 2014. 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, 2014, was audited by PricewaterhouseCoopers Accountants N.V., an independent registered public accounting firm, as stated in their auditor s report on the Annual Report on Form 20-F on page 130.

C. Changes in internal controls over financial reporting

There have been no changes in internal controls over financial reporting during the period covered by this Annual Report that have materially affected, or are reasonably likely to affect, Aegon s internal controls over financial reporting.

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Exchange rates

Exchange rates at December 31, 2014

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.2101	0.7760	1.4015	7.5072	27.7150	315.7500	4.2981	4.4837	2.8288	19.1412
USD	0.826	-	0.641	1.158	6.204	22.903	260.929	3.552	3.705	2.338	15.818
GBP	1.289	1.559	-	1.806	9.674	35.715	406.894	5.539	5.778	3.645	24.666
CAD	0.714	0.863	0.554	-	5.357	19.775	225.294	3.067	3.199	2.018	13.658
CNY	0.133	0.161	0.103	0.187	-	3.692	42.060	0.573	0.597	0.377	2.550
00 CZK	3.608	4.366	2.800	5.057	27.087	-	1,139.275	15.508	16.178	10.207	69.064
00 HUF	0.317	0.383	0.246	0.444	2.378	8.778	-	1.361	1.420	0.896	6.062
PLN	0.233	0.282	0.181	0.326	1.747	6.448	73.463	-	1.043	0.658	4.453
RON	0.223	0.270	0.173	0.313	1.674	6.181	70.422	0.959	-	0.631	4.269
TRY	0.354	0.428	0.274	0.495	2.654	9.797	111.620	1.519	1.585	-	6.767
UAH	0.052	0.063	0.041	0.073	0.392	1.448	16.496	0.225	0.234	0.148	-

Exchange rates at December 31, 2013

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.3780	0.8320	1.4641	8.3420	27.3725	297.0751	4.1579	4.4640	2.9605	11.3543
USD	0.726	-	0.604	1.062	6.054	19.864	215.584	3.017	3.239	2.148	8.240
GBP	1.202	1.656	-	1.760	10.026	32.900	357.061	4.997	5.365	3.558	13.647
CAD	0.683	0.941	0.568	-	5.698	18.696	202.906	2.840	3.049	2.022	7.755
CNY	0.120	0.165	0.100	0.176	-	3.281	35.612	0.498	0.535	0.355	1.361
00 CZK	3.653	5.034	3.040	5.349	30.476	-	1,085.305	15.190	16.308	10.816	41.481
00 HUF	0.337	0.464	0.280	0.493	2.808	9.214	-	1.400	1.503	0.997	3.822
PLN	0.241	0.331	0.200	0.352	2.006	6.583	71.448	-	1.074	0.712	2.731
RON	0.224	0.309	0.186	0.328	1.869	6.132	66.549	0.931	-	0.663	2.544
TRY	0.338	0.465	0.281	0.495	2.818	9.246	100.346	1.404	1.508	-	3.835
UAH	0.088	0.121	0.073	0.129	0.735	2.411	26.164	0.366	0.393	0.261	-

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
USD	0.753	-	0.607	1.104	6.164	20.707	232.071	3.149	3.344	2.187	11.899
GBP	1.241	1.648	-	1.820	10.160	34.134	382.553	5.190	5.512	3.605	19.615
CAD	0.682	0.906	0.550	-	5.584	18.760	210.251	2.853	3.029	1.981	10.781
CNY	0.122	0.162	0.098	0.179	-	3.360	37.652	0.511	0.542	0.355	1.931
CZK	3.634	4.829	2.930	5.330	29.766	-	1,120.743	15.206	16.147	10.561	57.466
HUF	0.324	0.431	0.261	0.476	2.656	8.923	-	1.357	1.441	0.942	5.128
PLN	0.239	0.318	0.193	0.351	1.958	6.576	73.705	-	1.062	0.695	3.779
RON	0.225	0.299	0.181	0.330	1.843	6.193	69.409	0.942	-	0.654	3.559
TRY	0.344	0.457	0.277	0.505	2.818	9.468	106.117	1.440	1.529	-	5.441
UAH	0.063	0.084	0.051	0.093	0.518	1.740	19.503	0.265	0.281	0.184	-

Weighted average exchange rates 2013

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.3272	0.8484	1.3674	8.1637	25.9238	296.3309	4.1940	4.4167	2.5305	10.8249
USD	0.753	-	0.639	1.030	6.151	19.533	223.275	3.160	3.328	1.907	8.156
GBP	1.179	1.564	-	1.612	9.622	30.556	349.282	4.943	5.206	2.983	12.759
CAD	0.731	0.971	0.620	-	5.970	18.958	216.711	3.067	3.230	1.851	7.916
CNY	0.122	0.163	0.104	0.167	-	3.175	36.299	0.514	0.541	0.310	1.326
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
PLN	0.238	0.316	0.202	0.326	1.947	6.181	70.656	-	1.053	0.603	2.581
RON	0.226	0.300	0.192	0.310	1.848	5.869	67.093	0.950	-	0.573	2.451
TRY	0.395	0.524	0.335	0.540	3.226	10.245	117.104	1.657	1.745	-	4.278
UAH	0.092	0.123	0.078	0.126	0.754	2.395	27.375	0.387	0.408	0.234	-

Weighted average exchange rates 2012

	EUR	USD	GBP	CAD	CNY	CZK	HUF	PLN	RON	TRY	UAH
EUR	-	1.2849	0.8103	1.2839	8.1377	25.1140	288.8606	4.1809	4.4548	2.3132	10.4363
USD	0.778	-	0.631	0.999	6.333	19.545	224.812	3.254	3.467	1.800	8.122
GBP	1.234	1.586	-	1.584	10.043	30.993	356.486	5.160	5.498	2.855	12.880
CAD	0.779	1.001	0.631	-	6.338	19.561	224.987	3.256	3.470	1.802	8.129
CNY	0.123	0.158	0.100	0.158	-	3.086	35.497	0.514	0.547	0.284	1.282
CZK	3.982	5.116	3.226	5.112	32.403	-	1,150.197	16.648	17.738	9.211	41.556
HUF	0.346	0.445	0.281	0.444	2.817	8.694	-	1.447	1.542	0.801	3.613

PLN	0.239	0.307	0.194	0.307	1.946	6.007	69.091	-	1.066	0.553	2.496
RON	0.224	0.288	0.182	0.288	1.827	5.638	64.843	0.939	-	0.519	2.343
TRY	0.432	0.555	0.350	0.555	3.518	10.857	124.875	1.807	1.926	-	4.512
UAH	0.096	0.123	0.078	0.123	0.780	2.406	27.678	0.401	0.427	0.222	-

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Consolidated income statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million (except per share data)	Note	2014	2013 [1)]	2012 [1)]
Premium income	6	19,864	19,939	19,049
Investment income	7	8,148	7,909	8,413
Fee and commission income	8	2,137	1,950	1,856
Other revenues		7	6	9
Total revenues		**30,157**	**29,805**	**29,327**
Income from reinsurance ceded	9	2,906	2,838	4,096
Results from financial transactions	10	13,213	15,393	13,008
Other income	11	61	393	149
Total income		**46,338**	**48,430**	**46,580**
Premiums to reinsurers	6	3,011	3,108	3,702
Policyholder claims and benefits	12	36,214	37,688	34,475
Profit sharing and rebates	13	17	28	33
Commissions and expenses	14	5,656	5,656	5,610
Impairment charges / (reversals)	15	87	294	199
	16	371	355	519

	Note			
Interest charges and related fees				
Other charges	17	172	134	52
Total charges		**45,528**	**47,262**	**44,590**
Income before share in profit / (loss) of joint ventures, associates and tax		**809**	**1,168**	**1,990**
Share in profit / (loss) of joint ventures		56	-	(13)
Share in profit / (loss) of associates		24	21	28
Income / (loss) before tax		**889**	**1,189**	**2,005**
Income tax	18	(132)	(200)	(372)
Net income / (loss)		**757**	**989**	**1,633**
Net income / (loss) attributable to:				
Equity holders of Aegon N.V.		756	986	1,632
Non-controlling interests		1	3	1
Earnings per share (EUR per share)	19			
Basic earnings per common share		0.29	0.36	0.72
Basic earnings per common share B		0.01	0.01	-
Diluted earnings per common share		0.29	0.36	0.72
Diluted earnings per common share B		0.01	0.01	-

[1] Amounts for 2013 and 2012 have been restated for the voluntary changes in accounting policies for deferred policy acquisition costs and longevity reserving. Refer to note 2.1.2 Voluntary changes in

accounting policies for details about these changes.

Consolidated statement of comprehensive income of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2014	2013 [1)]	2012 [1)]
Net income	**757**	**989**	**1,633**
Items that will not be reclassified to profit or loss:			
Changes in revaluation reserve real estate held for own use	9	(6)	(5)
Remeasurements of defined benefit plans	(1,156)	562	(149)
Income tax relating to items that will not be reclassified	333	(201)	38
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	6,759	(3,376)	4,191
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments	(702)	(435)	(465)
Changes in cash flow hedging reserve	1,188	(555)	(86)
Movement in foreign currency translation and net foreign investment hedging reserves	1,668	(727)	(129)
Equity movements of joint ventures	10	(4)	27
Equity movements of associates	(10)	54	22
	(2,018)	1,295	(1,058)

Income tax relating to items that may be reclassified			
Other	(5)	(6)	(2)
Total other comprehensive income	**6,075**	**(3,398)**	**2,384**
Total comprehensive income	**6,832**	**(2,409)**	**4,017**
Total comprehensive income attributable to:			
Equity holders of Aegon N.V.	6,833	(2,406)	4,018
Non-controlling interests	(1)	(3)	(1)

[1] Amounts for 2013 and 2012 have been restated for the voluntary changes in accounting policies for deferred policy acquisition costs and longevity reserving. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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Consolidated statement of financial position of Aegon N.V.

As at December 31

Amounts in EUR million	Note	2014	2013[1)]	January 1, 2013[1)]
Assets				
Intangible assets	21	2,073	2,272	2,506
Investments	22	153,219	135,533	144,969
Investments for account of policyholders	23	191,467	165,032	152,968
Derivatives	24	28,014	13,531	21,134
Investments in joint ventures	25	1,468	1,426	1,567
Investments in associates	26	140	470	771
Reinsurance assets	27	9,593	10,344	11,966
Defined benefit assets	41	38	34	22
Deferred tax assets	43	27	164	320
Deferred expenses	28	10,373	10,006	9,627
Assets held for sale	29	9,881	-	-
	30	7,563	7,357	7,623

Other assets and receivables				
Cash and cash equivalents	31	10,610	5,691	9,590
Total assets		**424,467**	**351,860**	**363,063**
Equity and liabilities				
Shareholders equity	32	23,957	17,694	21,037
Other equity instruments	33	3,827	5,015	5,018
Issued capital and reserves attributable to equity holders of Aegon N.V.		**27,784**	**22,709**	**26,055**
Non-controlling interests		9	10	13
Group equity		**27,793**	**22,719**	**26,068**
Subordinated borrowings	34	747	44	42
Trust pass-through securities	35	143	135	155
Insurance contracts	36	111,927	101,769	105,242
Insurance contracts for account of policyholders	36	102,250	84,311	76,169
Investment contracts	37	15,359	14,545	17,767
Investment contracts for account of policyholders	37	91,849	82,608	78,418
Derivatives	24	26,048	11,838	18,052
Borrowings	39	14,158	11,830	13,219
	40	322	182	330

Provisions				
Defined benefit liabilities	**41**	4,404	3,060	3,550
Deferred revenue liabilities	**42**	82	88	104
Deferred tax liabilities	**43**	3,151	1,657	2,501
Liabilities held for sale	**29**	7,810	-	-
Other liabilities	**44**	18,152	16,815	21,117
Accruals	**45**	272	259	329
Total liabilities		**396,674**	**329,141**	**336,995**
Total equity and liabilities		**424,467**	**351,860**	**363,063**

[1] Amounts for 2013 have been restated for the voluntary changes in accounting policies for deferred policy acquisition costs and longevity reserving. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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

For the year ended December 31, 2014

n	Note	Share capital	Retained earnings	Revaluation reserves	Remeasurement of defined benefit plans	Other reserves	Other equity instruments	Issued capital and reserves [1]	Non-controlling interests	Total
		8,701	8,455	3,023	(706)	(1,778)	5,015	22,709	10	22,719
e		-	756	-	-	-	-	756	1	757
loss:										
or		-	-	9	-	-	-	9	-	9
ned		-	-		(1,156)	-	-	(1,156)	-	(1,156)
ems ed		-	-	(2)	335	-	-	333	-	333

ly to									
ments	-	-	6,759	-	-	-	6,759	-	6,759
ed to posal ments	-	-	(702)	-	-	-	(702)	-	(702)
	-	-	1,188	-	-	-	1,188	-	1,188
net ing	-	-	-	(84)	1,752	-	1,668	-	1,668
int	-	-	-	-	10	-	10	-	10
	-	-	-	-	(10)	-	(10)	-	(10)
	-	-	-	-	-	-		-	
ems	-	-	(1,968)		(50)	-	(2,018)	-	(2,018)
	-	-	-	-	-	-		-	
	-	(4)	-	-	-	-	(4)	(1)	(5)
sive	**-**	**(4)**	**5,285**	**(905)**	**1,701**	**-**	**6,077**	**(1)**	**6,075**
	-	**752**	**5,285**	**(905)**	**1,701**	**-**	**6,833**	**(1)**	**6,832**

rawn										
wn		-	-	-	-	-	-	-	-	-
f		-	(67)	-	-	-	-	(67)	-	(67)
		-	-	-	-	-	-	-	-	-
s		-	11	-	-	-	(1,184)	(1,173)	-	(1,173)
non		(104)	(266)	-	-	-	-	(370)	-	(370)
		-	-	-	-	-	-	-	-	-
		-	(128)	-	-	-	-	(128)	-	(128)
nated		-	(24)	-	-	-	-	(24)	-	(24)
ans		-	7	-	-	-	(4)	3	-	3
		-	-	-	-	-	-	-	-	-
	32, 33	**8,597**	**8,740**	**8,308**	**(1,611)**	**(77)**	**3,827**	**27,784**	**9**	**27,793**

1 Issued capital and reserves attributable to equity holders of Aegon N.V.

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

For the year ended December 31, 2013

mounts in UR million	Note	Share capital	Retained earnings	Revaluation reserves	Re-measure-ment of defined benefit plans	Other reserves	Other equity instru-ments	Issued capital and reserves [1]	Non-control-ling interests	Total
January 1, 13 [2]		9,099	8,010	6,116	(1,085)	(1,103)	5,018	26,055	13	26,068
et income / ss) recognized the income tement		-	986	-	-	-	-	986	3	989
her mprehensive come:										
ems that will t be classified to ofit or loss:										
anges in valuation serve real estate ld for own use		-	-	(6)	-	-	-	(6)	-	(6)
		-	-	-	562	-	-	562	-	562
emeasurements defined benefit										

ans									
come tax ating to items at will not be classified	-	-	1	(202)	-	-	(201)	-	(201)
ems that may reclassified bsequently to ofit or loss:									
ins / (losses) revaluation of ailable-for-sale vestments	-	-	(3,376)	-	-	-	(3,376)	-	(3,376)
ains) / losses nsferred to come statement disposal and pairment of ailable-for-sale vestments	-	-	(435)	-	-	-	(435)	-	(435)
anges in cash ow hedging serve	-	-	(555)	-	-	-	(555)	-	(555)
ovements in reign currency nslation and t foreign vestment dging reserves	-	-	-	19	(746)	-	(727)	-	(727)
uity ovements of nt ventures	-	-	-	-	(4)	-	(4)	-	(4)
uity ovements of sociates	-	-	-	-	54	-	54	-	54

sposal of group sets	-	3	-	-	-	-	3	(3)	-
come tax ating to items at may be classified	-	-	1,274	-	21	-	1,295	-	1,295
ansfer from / to her headings	-	(3)	3	-	-	-	-	-	-
her	-	(4)	-	-	-	-	(4)	(2)	(6)
otal other mprehensive come / (loss)	**-**	**(4)**	**(3,093)**	**379**	**(675)**	**-**	**(3,392)**	**(5)**	**(3,398)**
otal mprehensive come / (loss) r 2013	**-**	**982**	**(3,093)**	**379**	**(675)**	**-**	**(2,406)**	**(3)**	**(2,409)**
ares issued and thdrawn	2	-	-	-	-	-	2	-	2
epurchased and ld own shares	(400)	(1)	-	-	-	-	(401)	-	(401)
easury shares	-	(77)	-	-	-	-	(77)	-	(77)
vidends paid on mmon shares	-	(240)	-	-	-	-	(240)	-	(240)
eferred vidend	-	(83)	-	-	-	-	(83)	-	(83)
	-	(146)	-	-	-	-	(146)	-	(146)
oupons on rpetual									

curities										
oupons on n-cumulative bordinated tes		-	(21)	-	-	-	-	(21)	-	(21)
are options and are-based centive plans		-	30	-	-	-	(3)	27	-	27
her		-	-	-	-	-	-	-	-	-
December 31, 13	**32, 33**	**8,701**	**8,455**	**3,023**	**(706)**	**(1,778)**	**5,015**	**22,709**	**10**	**22,719**

1 Issued capital and reserves attributable to equity holders of Aegon N.V.

2 Amounts for 2013 have been restated for the voluntary changes in accounting policies for deferred policy acquisition costs and longevity reserving. 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, 2012

Note	Share capital	Retained earnings	Revaluation reserves	Re-measure-ment of defined benefit plans	Other reserves	Other equity instruments	Issued capital and reserves [1]	Non-control-ling interests	Total
	9,097	9,296	3,481	(979)	(981)	4,720	24,634	14	24,648
		(1,411)	35		(39)		(1,415)		(1,415)
		(1,076)					(1,076)		(1,076)
	9,097	6,809	3,516	(979)	(1,020)	4,720	22,143	14	22,157
	-	1,632	-	-	-	-	1,632	1	1,633

-	-	(5)	-	-	-	(5)	-	(5)
-	-	-	(149)	-	-	(149)	-	(149)
-	-	1	37	-	-	38	-	38
-	-	4,191	-	-	-	4,191	-	4,191
-	-	(465)	-	-	-	(465)	-	(465)
-	-	(86)	-	-	-	(86)	-	(86)

-	-	-	6	(135)	-	(129)	-	(129)
-	-	-	-	27	-	27	-	27
-	-	-	-	22	-	22	-	22
-	(6)	(1,055)	-	3	-	(1,058)	-	(1,058)
-	(19)	19	-	-	-	-	-	-
-	-	-	-	-	-	-	(2)	(2)
-	**(25)**	**2,600**	**(106)**	**(83)**	**-**	**2,386**	**(2)**	**2,384**
-	**1,607**	**2,600**	**(106)**	**(83)**	**-**	**4,018**	**(1)**	**4,017**
2	-	-	-	-	-	2	-	2
-	3	-	-	-	-	3	-	3
-	(148)	-	-	-	-	(148)	-	(148)

	-	(59)	-	-	-	-	(59)	-	(59)
	-	(172)	-	-	-	-	(172)	-	(172)
	-	-	-	-	-	271	271	-	271
	-	(23)	-	-	-	-	(23)	-	(23)
	-	(10)	-	-	-	-	(10)	-	(10)
	-	3	-	-	-	-	3	-	3
	-	-	-	-	-	27	27	-	27
32, 33	**9,099**	**8,010**	**6,116**	**(1,085)**	**(1,103)**	**5,018**	**26,055**	**13**	**26,068**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.
[2] Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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Consolidated cash flow statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	Note	2014	2013 3)	2012 3)
Income / (loss) before tax		**889**	**1,189**	**2,005**
Results from financial transactions		(13,640)	(16,219)	(12,903)
Amortization and depreciation		971	1,011	1,239
Impairment losses		87	322	198
Income from joint ventures		(56)	-	13
Income from associates		(24)	(21)	(26)
Release of cash flow hedging reserve		(12)	(26)	(62)
Remeasurements of defined benefit plans		(1,156)	562	(149)
Other		187	(146)	(175)
Adjustments of non-cash items		**(13,644)**	**(14,517)**	**(11,865)**
Insurance and investment liabilities		6,375	(679)	(3,418)
Insurance and investment liabilities for account of policyholders		12,302	18,787	10,801
		2,147	(2,509)	550

Accrued expenses and other liabilities			
Accrued income and prepayments	(2,266)	(927)	(1,501)
Changes in accruals	**18,559**	**14,672**	**6,432**
Purchase of investments (other than money market investments)	(36,577)	(34,100)	(32,018)
Purchase of derivatives	1,417	(850)	(1,528)
Disposal of investments (other than money market investments)	33,846	31,176	33,742
Disposal of derivatives	1,589	182	507
Net purchase of investments for account of policyholders	(1,788)	(1,395)	1,197
Net change in cash collateral	627	(1,414)	(177)
Net purchase of money market investments	(958)	3,221	326
Cash flow movements on operating items not reflected in income	**(1,843)**	**(3,180)**	**2,049**
Tax paid	148	(164)	133
Other	12	(9)	19
Net cash flows from operating activities	**4,122**	**(2,011)**	**(1,227)**
Purchase of individual intangible assets (other than VOBA and future servicing rights)	(28)	(22)	(36)
Purchase of equipment and real estate for own use	(77)	(66)	(63)

Acquisition of subsidiaries, joint ventures and associates, net of cash	(95)	(291)	(23)
Disposal of equipment	13	15	10
Disposal of subsidiaries, joint ventures and associates, net of cash	42	811	276
Dividend received from joint ventures and associates	75	64	72
Other	-	5	1
Net cash flows from investing activities	**(71)**	**516**	**237**
Issuance of share capital	-	2	2
Issuance and purchase of treasury shares	(199)	(92)	-
Issuance of non-cumulative subordinated notes	-	-	271
Proceeds from TRUPS [1], subordinated loans and borrowings	3,862	1,056	4,610
Repayment of perpetuals	(1,173)	-	-
Repayment of share premium	-	(401)	-
Repayment of TRUPS [1], subordinated loans and borrowings	(1,307)	(2,283)	(1,663)
Dividends paid	(266)	(323)	(207)
Coupons on perpetual securities	(171) (32)	(194) (28)	(230) (30)

Coupons on non-cumulative subordinated notes				
Other		-	(8)	(11)
Net cash flows from financing activities		**715**	**(2,271)**	**2,741**
Net increase / (decrease) in cash and cash equivalents [2)]		**4,766**	**(3,766)**	**1,751**
Net cash and cash equivalents at the beginning of the year		5,652	9,497	7,717
Effects of changes in exchange rate		231	(79)	29
Net cash and cash equivalents at the end of the year	**31**	**10,649**	**5,652**	**9,497**

1 Trust pass-through securities.

2 Included in net increase / (decrease) in cash and cash equivalents are interest received (2014: EUR 6,711 million, 2013: EUR 6,731 million, and 2012: EUR 8,091 million) dividends received (2014: EUR 1,342 million, 2013: EUR 1,021 million, and 2012: EUR 1,069 million) and interest paid (2014: EUR 320 million, 2013: EUR 347 million, and 2012: EUR 1,261 million).

3 Amounts for 2013 and 2012 have been restated for the voluntary changes in accounting policies for deferred policy acquisition costs and longevity reserving. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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

Notes to the consolidated financial statements

1 General information

Aegon N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague 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 28,000 people worldwide (2013: nearly 27,000).

2 Summary of significant accounting policies

2.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual Report on Form 20-F.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2014 is provided below in note 2.1.1 Adoption of new IFRS accounting standards. Aegon also adopted voluntary changes in accounting policies, effective January 1, 2014, disclosed in note 2.1.2 Voluntary changes in accounting policies. 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 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 18, 2015. The financial statements will be put to the Annual General Meeting of Shareholders on May 20, 2015 for adoption. The shareholders meeting can decide not to adopt the financial statements but cannot amend them.

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

A reconciliation between IFRS and IFRS-EU is included in the table below.

	Shareholders equity			Net income		
	2014	2013	2012	2014	2013	2012
In accordance with IFRS	**23,957**	**17,694**	**21,037**	**757**	**989**	**1,633**
Adjustment of EU IAS 39 carve-out	434	(124)	52	559	(176)	52
Tax effect of the adjustment	(98)	31	(13)	(129)	44	(13)
Effect of the adjustment after tax	**336**	**(93)**	**39**	**429**	**(132)**	**39**
In accordance with IFRS-EU	**24,293**	**17,601**	**21,076**	**1,186**	**857**	**1,672**

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 2014, 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:

- IFRS 10 Consolidated Financial Statements - Amendment Investment Entities;
- IAS 32 Financial Instruments: Presentation - Amendment Offsetting Financial Assets and Financial Liabilities;
- IAS 36 Impairment of Assets - Amendment Recoverable Amounts Disclosures for Non-Financial Assets;
- IAS 39 Financial Instruments: Recognition and Measurement - Amendment Novation of Derivatives and Continuation of Hedge Accounting; and
- IFRIC 21 - Levies.

2.1.2 Voluntary changes in accounting policies

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

Deferred policy acquisition costs

Aegon adopted one single group-wide accounting policy for deferred policy acquisition costs as of January 1, 2014. Upon initial adoption of IFRS, entities were permitted to continue existing accounting policies for insurance contracts even though such policies were often non-uniform between countries. Through adoption of a uniform, group-wide accounting policy, Aegon will eliminate this lack of uniformity for the deferral of policy acquisition costs thereby providing the users of the financial statements with more meaningful information. Details for the deferred policy acquisition costs are included in note 2.13 Deferred expenses.

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

Details of the impact of the adjustments on previous periods of the financial statements are provided in the following tables.

Longevity reserving

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

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

Details of the impact of the adjustments on previous periods of the financial statements are provided in the following tables.

	2013[1]	Change in accounting policy: Deferred policy acquisition costs	Change in accounting policy: Longevity reserving	2013 (restated)	2012[1]	Change in accounting policy: Deferred policy acquisition costs	Change in accounting policy: Longevity reserving	2012 (restated)
Impact of changes in accounting policies on the consolidated income statement								
Policyholder claims and benefits	37,793	12	(117)	37,688	34,665	7	(197)	34,475
Commissions and expenses	5,593	63	-	5,656	5,559	51	-	5,610
Income tax (expense) / benefit	(166)	(10)	(24)	(200)	(323)	(4)	(45)	(372)
Net effect		**(85)**	**93**			**(62)**	**152**	
Earnings per share (EUR per share)								
Basic earnings per common share	0.36	(0.04)	0.05	0.36	0.68	(0.03)	0.07	0.72
Basic earnings per common share B	0.01	-	-	0.01	-	-	-	-
Diluted earnings per common share	0.36	(0.04)	0.05	0.36	0.68	(0.03)	0.07	0.72
Diluted earnings per common share B	0.01	-	-	0.01	-	-	-	-
Earnings per common share calculation								
Net income attributable to equity holders of	978	(85)	93	986	1,542	(62)	152	1,632

Aegon N.V.								
Preferred dividend	(83)	-	-	(83)	(59)	-	-	(59)
Coupons on other equity instruments	(167)	-	-	(167)	(195)	-	-	(195)
Earnings attributable to common shareholders	728	(85)	93	736	1,288	(62)	152	1,378
Weighted average number of common shares outstanding (in million)	2,035	-	-	2,035	1,907	-	-	1,907
Weighted average number of common shares B outstanding (in million)	366	-	-	366	-	-	-	-

[1] As reported in Aegon s Annual Report 2013 on Form 20-F dated March 19, 2014.

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Impact of changes in accounting policies on the consolidated statement of comprehensive income	2013 [1]	Change in accounting policy: Deferred policy acquisition costs	Change in accounting policy: Longevity reserving	2013 (restated)	2012 [1]	Change in accounting policy: Deferred policy acquisition costs	Change in accounting policy: Longevity reserving	2012 (restated)
Net income	**980**	**(85)**	**93**	**989**	**1,543**	**(62)**	**152**	**1,633**
Items that may be reclassified to profit or loss:								
Gains / (losses) on revaluation of available-for-sale investments	(3,349)	(26)	-	(3,376)	4,176	15	-	4,191
Movement in foreign currency translation and net foreign investment hedging reserves	(784)	57	-	(727)	(110)	(19)	-	(129)
Income tax relating to items that may be reclassified	1,286	8	-	1,295	(1,051)	(7)	-	(1,058)
Net effect other comprehensive income for the period		**39**	**-**			**(11)**	**-**	
Net effect comprehensive income		**(46)**	**93**			**(73)**	**152**	
Total comprehensive income attributable to:								
Equity holders of Aegon N.V.	(2,454)	(46)	93	(2,406)	3,939	(73)	152	4,018

Non-controlling interests	(3)	-	-	(3)	(1)	-	-	(1)

1 As reported in Aegon s Annual Report 2013 on Form 20-F dated March 19, 2014.

Impact of changes in accounting policies on the consolidated statement of financial position	December 31, 2013 1)	Change in accounting policy: Deferred policy acquisition costs	Change in accounting policy: Longevity reserving	Reclassification 2)	December 31, 2013 (restated)	January 1, 2013 1)	Change in accounting policy: Deferred policy acquisition costs	Change in accounting policy: Longevity reserving	Reclassification 2)	January 1, 2013 (restated)
Assets										
Intangible assets	2,246	26	-	-	2,272	2,485	21	-	-	2,506
Investments in joint ventures	1,427	(1)	-	-	1,426	1,568	(1)	-	-	1,567
Reinsurance assets	10,345	(2)	-	-	10,344	11,965	1	-	-	11,966
Deferred tax assets	37	2	-	125	164	93	2	-	225	320
Deferred expenses	12,040	(2,035)	-	-	10,006	11,644	(2,017)	-	-	9,627
Equity and liabilities										
Shareholders equity	20,059	(1,533)	(832)	-	17,694	23,449	(1,487)	(925)	-	21,037
Insurance contracts	100,642	54	1,073	-	101,769	104,004	48	1,190	-	105,242
Deferred tax liabilities	2,304	(531)	(241)	125	1,657	3,096	(555)	(265)	225	2,501

1 As reported in Aegon s Annual Report 2013 on Form 20-F dated March 19, 2014.

2 As a result of the voluntary accounting changes the balance of the Dutch tax group as at December 31, 2013, and December 31, 2012, changed from a deferred tax liability to a deferred tax asset.

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Impact of changes in accounting policies on the statement of changes in equity	December 31, 2013 [1]	Change in accounting policy		December 31, 2013 (restated)	December 31, 2012 [1]	Change in accounting policy		December 31, 2012 (restated)
		Deferred policy acquisition costs	Longevity reserving			Deferred policy acquisition costs	Longevity reserving	
Share capital	8,701	-	-	8,701	9,099	-	-	9,099
Retained earnings	10,843	(1,557)	(832)	8,455	10,407	(1,472)	(925)	8,010
Revaluation reserves	2,998	26	-	3,023	6,073	43	-	6,116
Remeasurement of defined benefit plans	(706)	-	-	(706)	(1,085)	-	-	(1,085)
Other reserves	(1,777)	(1)	-	(1,778)	(1,045)	(58)	-	(1,103)
Shareholders equity	**20,059**	**(1,533)**	**(832)**	**17,694**	**23,449**	**(1,487)**	**(925)**	**21,037**

[1] As reported in Aegon s Annual Report 2013 on Form 20-F dated March 19, 2014.

Borrowings

In 2014, the Group changed the presentation of its borrowings. Aegon s borrowings are now further defined separately as capital funding and operational funding. Capital funding includes debt securities that are issued for general corporate purposes and for capitalizing its business units. Capital funding is part of the Company s total capitalization that is used for financing its subsidiaries and the cash held at the holding company. Operational funding includes debt securities that are issued for financing of dedicated pools of assets. These assets are either legally segregated or tracked as separate portfolios.

The presentation of borrowings is changed to align more closely with the current methodology for the Group s composition of total capitalization and the calculation of gross financial leverage. As a result, bank overdrafts and short-term deposits, which were previously classified within borrowings, are reclassified to Other liabilities. Comparative information has been reclassified accordingly. Refer to note 39 Borrowings and note 44 Other liabilities for more information. This change in presentation did not change net profit, total assets or total liabilities.

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, 2014, 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*.

* Not yet endorsed by the European Union.

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 eventually replace IAS 39 and all previous versions of IFRS 9. Application is required for annual periods beginning or after January 1, 2018. Under the Classification and Measurement component 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. On November 19, 2013, the IASB issued a new version of Hedge Accounting, which includes the new hedge accounting requirements. Macro hedging is decoupled from the hedge accounting component in order to avoid impact on the effective date or timing of the completion of the IFRS 9 project. IFRS 9 is expected to have a significant impact on the Group s financial statements because it will likely result in a reclassification and remeasurement (including impairment) of Aegon s financial assets. The full impact 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, 2017, 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 amendments to the existing standards and interpretations, published prior to January 1, 2015, which are not yet effective for or early adopted by the Group, will not significantly impact the financial position or financial statements:

- IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception[1];
- IFRS 10 and IAS 28 - Amendment Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1];
- IFRS 11 Joint Arrangements - Amendment Accounting for Acquisition of Interests in Joint Operations[1];
- IFRS 14 Regulatory Deferral Accounts[1];
- IAS 1 - Amendment Disclosure Initiative[1];
- IAS 19 Employee Benefits - Amendment Employee Contributions;
- IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements[1];
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization[1];
- Annual improvements 2010-2012 Cycle;
- Annual improvements 2011-2013 Cycle; and
- Annual improvements 2012-2014 Cycle[1].

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. Contingent consideration is 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.

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.

[1] Not yet endorsed by the European Union.

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

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

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

Investment funds where Aegon acts as an agent are not consolidated due to lack of control. . 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.

On 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 contributed to the conclusion that consolidation of these entities was required include that fact that 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.

Non-current assets held for sale and disposal groups

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

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

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

2.3 Foreign exchange translation

a. Translation of foreign currency transactions

The Group s consolidated financial statements are presented in euros. Items included in the financial statements of individual group companies are recorded in their respective functional currency which is the currency of the primary economic environment in which each entity operates. Transactions in foreign currencies are initially recorded at the exchange rate prevailing at the date of the transaction.

At the balance sheet date, monetary assets and monetary liabilities in foreign currencies and own equity instruments in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

b. Translation of foreign currency operations

On consolidation, the financial statements of group entities with a foreign functional currency are translated to euro, the currency in which the consolidated financial statements are presented. Assets and liabilities are translated at the closing rates on the balance sheet date. Income, expenses and capital transactions (such as dividends) are translated at average exchange rates or at the prevailing rates on the transaction date, if more appropriate. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated at the closing rates on the balance sheet date.

The resulting exchange differences are recognized in the foreign currency translation reserve, which is part of shareholders equity. On disposal of a foreign entity the related cumulative exchange differences included in the reserve are recognized in the income statement.

2.4 Segment reporting

Aegon s operating segments are 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 . The reportable segments are:

- ¿ Aegon Americas: Covers business units in the United States, Canada, Brazil and Mexico, including any of the units activities located outside these countries;
- ¿ Aegon the Netherlands: Covers businesses operating in the Netherlands;
- ¿ Aegon UK: Covers businesses operating in the United Kingdom;
- ¿ New Markets: Covers businesses operating in Central & Eastern Europe, Asia, Spain and France as well as Aegon s variable annuity activities in Europe and Aegon Asset Management that are aggregated as reportable segment;
- ¿ Holding and other activities: Includes financing, employee and other administrative expenses of holding companies.

Segment measures are explained and disclosed in note 5 Segment information.

2.5 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterpart.

2.6 Intangible assets

a. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and joint ventures acquired after January 1, 2004, and is measured as the positive difference between the acquisition cost and the Group s interest in the net fair value of the entity s identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary or joint venture is disposed.

b. Value of business acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA). The Group also recognizes VOBA when it acquires a portfolio of investment contracts with discretionary participation features.

VOBA is amortized over the useful life of the acquired contracts, based on either the expected future premiums or the expected gross profit margins. The amortization period and pattern are reviewed at each reporting date; any change in estimates is recorded in the income statement. For all products, VOBA, in conjunction with deferred policy acquisition costs (DPAC) where appropriate, is assessed for recoverability at least annually 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 off.

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 as the fees from services emerge and is subject to impairment testing. It is derecognized when the related contracts are settled or disposed off.

d. Software and other intangible assets

Software and other intangible assets are recognized to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in the income statement.

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.7 Investments

General account investments comprise financial assets, excluding derivatives, as well as investments in real estate.

a. Financial assets, excluding derivatives

Financial assets are recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the Group s investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances the Group designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments, that are not quoted in an active market and that the Group does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale.

All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and financial assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

The consolidated financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the values are provided in the notes to the financial statements.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the 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.

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.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Group considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. Derivatives for which the contractual obligation can only be settled by exchanging a fixed amount of cash for a fixed amount of Aegon N.V. equity instruments are accounted for in shareholders equity.

b. Measurement

All derivatives recognized on the statement of financial position are carried at fair value.

The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible.

c. Hedge accounting

As part of its asset liability management, the Group enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item.

For hedge accounting purposes, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the profit and loss account over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecasted transaction or a recognized asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognized in the related revaluation reserve in shareholders equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in shareholders equity is released to the income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in shareholders equity is included in the initial cost of the asset or liability.

Net investment hedges

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

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

2.10 Investments in joint arrangements

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

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

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

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

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

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

2.11 Investments in associates

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

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

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

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

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

2.12 Reinsurance assets

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for losses 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 run-off period of the underlying business.

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 off.

b. Deferred cost of reinsurance

A deferred cost of reinsurance is established when Aegon enters into a reinsurance transaction. Aegon is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the run-off period of the underlying business.

Gains or losses on buying reinsurance are amortized based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

c. Deferred transaction costs

Deferred transaction costs relate to investment contracts without discretionary participation features under which Aegon will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the carrying amount of the financial liability.

The deferred transaction costs are amortized in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. The amortization is recognized in the income statement. Deferred transaction costs are subject to impairment testing at least annually.

Deferred transaction costs are derecognized when the related contracts are settled or disposed off.

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 with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investment for account of policyholders.

2.16 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 utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates. Refer to note 21 Intangible assets for more details.

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Impairment losses are charged to shareholders equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

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

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally and cannot be larger than an operating segment. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets recoverable amounts.

b. Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.

Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed what the amortized cost would have been at the reversal date, had the impairment not been recognized.

c. Impairment of equity instruments

For equity instruments, objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in fair value below initial cost is also considered objective evidence of impairment and always results in a loss being recognized in the income statement. Significant or prolonged decline is defined as an unrealized loss position for generally more than six months or a fair value of less than 80% of the cost price of the investment. Equity investments are impaired to the asset s fair value and any unrealized gain or loss previously recognized in shareholders equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement. If an available-for-sale equity security is impaired based upon Aegon s qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon Aegon s impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

Impairment losses on equity instruments cannot be reversed.

d. Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer s current and expected future financial conditions plus any collateral held in trust for Aegon s benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognized in the income statement.

2.17 Equity

Financial instruments that are issued by the Group are classified as equity if they represent a residual interest in the assets of the Group after deducting all of its liabilities and the Group has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. In addition to common shares, the Group has issued perpetual securities. Perpetual securities have no final maturity date, repayment is at the discretion of Aegon and for junior perpetual capital securities, Aegon has the option to defer coupon payments at its discretion. The perpetual capital securities are classified as equity rather than debt, are measured at par and those that are denominated in US dollars are translated into euro using historical exchange rates.

Non-cumulative subordinated notes are identified as a compound instrument due to the nature of this financial instrument. For these non-cumulative subordinated notes, Aegon has an unconditional right to avoid delivering cash or another financial asset to settle the coupon payments. The redemption of the principal is however not at the discretion of Aegon and therefore Aegon has a contractual obligation to settle the redemption in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for Aegon. Compound instruments are separated into liability components and equity components. The liability component for the non-cumulative subordinated notes is equal to the present value of the redemption amount and carried at amortized cost using the effective interest rate method. The unwinding of the discount of this component is recognized in the income statement. The liability component is derecognized when the Group s obligation under the contract expires, is discharged or is cancelled. 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 GAAP s which have become effective subsequent to the date of transition to IFRS.

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.

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.

Guaranteed minimum benefits

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

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

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

d. Shadow accounting

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

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

e. Non-life insurance contracts

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

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

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

f. Liability adequacy testing

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

All tests performed within the Group are based on current estimates of all contractual future cash flows, including related cash flows from policyholder options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling. Aggregation levels are set either on geographical jurisdiction or at the level of portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio. Specifically, in the Netherlands and the UK the liability adequacy test is performed on a consolidated basis for all life and non-life business, whereas in the Americas it is performed at the level of the portfolio of contracts. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on management s expectation of the future return on investments. These future returns on investments take into account management s best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity. Aegon the Netherlands, as required locally, adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of the assets that are measured at amortized cost in the balance sheet.

To the extent that the account balances are insufficient to meet future benefits and expenses, any resulting deficiency is recognized in the income statement, initially by impairing the DPAC and VOBA and subsequently by establishing an insurance liability for the remaining loss, unless shadow loss recognition has taken place. In the Netherlands, in situations where market interest rates for the valuation of debt securities leads to a change in the revaluation reserve, and where the result of using the same assumptions for the liabilities could lead to a deficiency in the liability adequacy test that should be recognized in the income statement, shadow loss recognition is applied. Shadow loss recognition is applied to the extent that the deficiency of the insurance liabilities relates to the revaluation of debt securities as a result of movements in interest rates, the addition to the insurance liabilities is then off set against the revaluation reserve.

The adequacy of the non-life insurance liability is tested at each reporting date. Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

2.20 Investment contracts

Contracts issued by the Group that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Group are accounted for as investment contracts. Depending on whether the Group or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is cancelled.

a. Investment contracts with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investment contracts, specific investments held by the Group or on the issuer s net income. If the Group has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Some unitized investment contracts provide policyholders with the option to switch between funds with and without discretionary participation features. The entire contract is accounted for as an investment contract with discretionary participation features if there is evidence of actual switching resulting in discretionary participation benefits that are a significant part of the total contractual benefits.

b. Investment contracts without discretionary participation features

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

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

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

c. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholder. Also included are participations held by third parties in consolidated investment funds that meet the definition of a financial liability.

Investment contracts for account of policyholders are designated at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Group recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and recognized as a deferred revenue liability, refer to note 2.23 Deferred revenue liability.

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.

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. Remeasurements of the net defined benefit liability (asset) shall not be reclassified to profit or loss in a subsequent period.

Within the Group only discretionary employee contributions and employee contributions linked to service but independent of the number of years of service exist, which are deducted from the current year service cost. 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
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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 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. The cost is recognized in the income statement, together with a corresponding increase in shareholders equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management s best estimate of the number of shares expected to vest ultimately.

Share appreciation right plans are initially recognized at fair value at the grant date, taking into account the terms and conditions on which the instruments were granted. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

Share option plans that can be settled in either shares or cash at the discretion of the employee are accounted for as a compound financial instrument, which includes a debt component and an equity component.

2.23 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.

2.24 Tax assets and liabilities

a. Current tax assets and liabilities

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

b. Deferred tax assets and liabilities

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

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

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon s deferred tax positions at each reporting period to determine if it is probable that the assets will be realized. These reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning opportunities it can utilize to increase the likelihood that the tax assets will be realized. The carrying amount is not discounted and reflects the Group s expectations concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in profit and loss, other comprehensive income or directly in equity.

2.25 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.26 Premium income

Gross premiums, including recurring and single premiums, from life and non-life insurance and investment contracts with discretionary participation features are recognized as revenue when they become receivable. For products where deposit accounting is required, the deposits are not reflected as premium income, but are recognized as part of the financial liability. For these products the surrender charges and charges assessed have been included in gross premiums.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense. Depending on the applicable local accounting principles, bonuses that are used to increase the insured benefits may be recognized as gross premiums. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

2.27 Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend income on financial assets carried at fair value through profit or loss.

Investment income also includes rental income due, as well as fees received for security lending.

2.28 Fee and commission income

Fees and commissions from investment management services and mutual funds, and from sales activities are recognized as revenue over the period in which the services are performed or for sales activities where services have been rendered.

2.29 Policyholder claims and benefits

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

2.30 Results from financial transactions

Results from financial transactions include:

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

Realized gains and losses on financial investments

Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.

Net fair value change of derivatives

All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net investment in a foreign operation. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

Net fair value change on for account of policyholder financial assets at fair value through profit or loss

Net fair value change on for account of policyholder financial assets at fair value through profit or loss includes fair value movements of investments held for account of policyholders (refer to note 2.8 Investments for account of policyholders). The net fair value change does not include interest or dividend income.

Other

In addition, results from financial transactions include gains/losses on real estate (general account and account of policyholders), net foreign currency gains/(losses) and net fair value change on borrowings and other financial liabilities and realized gains on repurchased debt.

2.31 Impairment charges/(reversals)

Impairment charges and reversals include impairments and reversals on investments in financial assets, impairments and reversals on the valuation of insurance assets and liabilities and other non-financial assets and receivables. Refer to note 15 Impairment charges/ (reversals).

2.32 Interest charges and related fees

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

2.33 Leases

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

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

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

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

2.34 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

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 generally based on current assumptions or on the assumptions established at the inception of the contract. All contracts are subject to liability adequacy testing which reflects management s current estimates of future cash flows (including investment returns). To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity.

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

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

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 2014, Aegon implemented model and assumption updates resulting in a net EUR 352 million charge to income before tax.

Charges arising from assumption and model updates included in underlying earnings before tax amounted to EUR 221 million:

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A charge for actuarial assumption updates in the Americas Life & Protection business amounted to EUR 265 million, and was primarily related to updated mortality assumptions for the older ages. Model updates, including changes to modeled premium persistency, had a negative impact of EUR 29 million; and

- Actuarial assumption changes and model updates in the Americas Individual Savings & Retirement business resulted in a gain of EUR 100 million. Updated assumptions in variable annuities related to policyholder behavior on partial withdrawals accounted for the majority of an aggregated EUR 129 million benefit. A EUR 29 million charge was mainly caused by updated assumption for the asset portfolio at fixed annuities.

Actuarial assumption changes and model updates not included in underlying earnings before tax had an adverse impact on income before tax of EUR 131 million. Consisting of a charge of EUR 118 million in the Americas, mainly caused by adjusting the modeled hedging costs for the GMWB variable annuity book, improving the hedging models for indexed universal life products and updating the discount rate on reserves in the run-off life reinsurance book, and a charge of EUR 13 million in the Netherlands from model updates.

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 remains at 4.25% and the uniform grading period is 10 years. Aegon s assumed returns for US separate account bond fund remain at 4% over the next 10 years and 6% thereafter. The 90-day Treasury yield is 0.04% at December 31, 2014, and is assumed to remain level for the next two years followed by an eight year grade to 2.5%. On a quarterly basis, the estimated gross profits are updated for the difference between the estimated market return and the actual market return.

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%.

In 2012, 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 9% (2011: 9%). The 90-day Treasury yield was 0.05% at December 31, 2012, and was assumed to remain level for the next 2 years followed by a 3 year grade to 3%. Aegon s assumptions on the long term credit spread or default assumptions, remained unchanged in 2012.

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 130 million (2013: EUR 94 million). The DPAC and VOBA balances for these products in the United States amounted to EUR 2.6 billion at December 31, 2014 (2013: EUR 2.1 billion).

For the fixed annuities and fixed universal life insurance products, the estimated gross profits (EGP) calculations include a net interest rate margin, which Aegon assumes will remain practically stable under any reasonably likely interest rate scenario.

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 63 million (2013: EUR 105 million). A relative 20% increase in the lapse rate assumption would increase net income by approximately EUR 71 million (2013: EUR 18 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 32 million (per assumption change) (2013: EUR 37 million).

Determination of fair value and fair value hierarchy

The following is a description of Aegon s methods of determining fair value, and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Aegon uses the following hierarchy for measuring and disclosing of the fair value of assets and liabilities:

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

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

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

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

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

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities, the derivation of fair value is more judgmental. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument s carrying amount is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an at arm s length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the table headed Effect of changes in significant unobservable assumptions to reasonably possible alternatives below. 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 ri sks

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 common 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.

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, appropriate management actions are implemented when management deems this necessary.

Currency exchange rate risk

As an international group, Aegon is subject to foreign currency translation risk. Foreign currency exposure exists 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:

	2014	2013	2012
Net income			
Americas (in USD)	784	540	1,325
The Netherlands (in EUR)	62	521	387
United Kingdom (in GBP)	143	65	109
New Markets (in EUR)	89	127	243
Equity in functional currency			
Americas (in USD)	21,387	19,891	22,437
The Netherlands (in EUR)	4,745	3,350	3,979
United Kingdom (in GBP)	3,781	2,845	2,593
New Markets (in EUR)	2,242	1,873	2,406

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	2014	2013	2012	2011	2010
USD	1.21	1.38	1.32	1.30	1.34
GBP	0.78	0.83	0.81	0.84	0.86

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 and joint ventures in the consolidated financial statements.

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Sensitivity analysis of net income and shareholders equity to translation risk

Movement of markets [1]	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
2014		
Increase by 15% of USD currencies relative to the euro	79	1,434
Increase by 15% of GBP currencies relative to the euro	31	484
Increase by 15% of non-euro currencies relative to the euro	178	2,398
Decrease by 15% of USD currencies relative to the euro	(79)	(1,434)
Decrease by 15% of GBP currencies relative to the euro	(31)	(484)
Decrease by 15% of non-euro currencies relative to the euro	(178)	(2,398)
2013		
Increase by 15% of USD currencies relative to the euro	61	1,425
Increase by 15% of GBP currencies relative to the euro	20	565
Increase by 15% of non-euro currencies relative to the euro	61	1,951
Decrease by 15% of USD currencies relative to the euro	(61)	(1,425)
Decrease by 15% of GBP currencies relative to the euro	(20)	(565)
Decrease by 15% of non-euro currencies relative to the euro	(61)	(1,950)

1 The effect change 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.

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. Mortgages 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.

The following table shows interest rates at the end of each of the last five years.

	2014	2013	2012	2011	2010
3-month US LIBOR	0.26%	0.25%	0.31%	0.58%	0.30%
3-month EURIBOR	0.08%	0.29%	0.19%	1.36%	1.01%
10-year US Treasury	2.17%	3.03%	1.76%	1.88%	3.29%
10-year Dutch government	0.68%	2.23%	1.50%	2.19%	3.15%

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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. In general, increases in interest rates have a negative effect on shareholders equity and a positive impact on net income in the current year because it results in unrealized losses on investments that are carried at fair value. 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.

Parallel movement of yield curve	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
2014		
Shift up 100 basis points	456	(4,010)
Shift down 100 basis points	(568)	2,476
2013		
Shift up 100 basis points	447	(3,110)
Shift down 100 basis points	(394)	3,481

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 equaling the return of principal and interest. Aegon is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), over-the-counter 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 the financial crisis, Aegon incurred significant investment impairments on Aegon s investment assets due to defaults and overall declines in the capital markets. Further excessive defaults or other reductions in the value of these securities and loans could have a materially adverse effect on Aegon s business, results of operations and financial condition.

The table that follows shows the Group s maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 48 Commitments and contingencies and note 49 Transfer of financial assets for further information on capital commitments and contingencies, and on collateral given, which may expose the Group to credit risk.

2014	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agree-ments	Other	Total collateral	Surplus collateral (or overcollater-	Net exposure

									alization)	
Shares	1,122	-	-	-	-	-	-	-	-	1,122
Debt securities - carried at fair value	103,324	-	-	500	-	-	-	500	-	102,824
Money market and other short-term investments - carried at fair value	7,299	-	874	-	-	-	-	874	-	6,425
Mortgage loans - carried at amortized cost	31,729	1,911	-	1,688	41,337	-	1	44,938	13,933	725
Private loans - carried at amortized cost	2,058	-	-	-	-	-	-	-	-	2,058
Other loans - carried at amortized cost	2,516	-	-	-	-	-	2,018	2,018	1,305	1,803
Other financial assets -carried at fair value	3,380	-	-	-	-	-	-	-	-	3,380
Derivatives	27,183	3,932	356	-	-	22,207	-	26,495	33	721
Reinsurance assets	9,494	-	4,709	170	-	-	-	4,879	-	4,615
At December 31	**188,105**	**5,844**	**5,939**	**2,357**	**41,337**	**22,207**	**2,019**	**79,703**	**15,272**	**123,673**

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2013	Maximum exposure to credit risk	Cash	Securities	Letters of credit / guarantees	Real estate property	Master netting agree-ments	Other	Total collateral	Surplus collateral (or overcollateral-ization)	Net exposure
Shares	2,036	-	-	-	-	-	-	-	-	2,036
Debt securities - carried at fair value	89,511	-	-	725	-	-	-	725	-	88,787
Money market and other short-term investments - carried at fair value	5,974	-	1,078	-	-	-	-	1,078	31	4,926
Mortgage loans - carried at amortized cost	29,369	1,717	-	1,810	39,447	-	2	42,976	14,442	835
Private loans - carried at amortized cost	1,783	21	-	-	-	-	-	21	-	1,761
Other loans - carried at amortized cost	2,381	-	-	-	-	-	1,925	1,925	1,149	1,606
Other financial assets -carried at fair value	2,947	-	-	-	-	-	-	-	-	2,947
Derivatives	13,293	2,898	416	-	-	9,433	-	12,746	78	625
Reinsurance assets	10,253	-	5,327	165	-	-	-	5,492	-	4,761
At December 31	**157,548**	**4,636**	**6,821**	**2,700**	**39,447**	**9,433**	**1,927**	**64,963**	**15,699**	**108,284**

Shares

Further information on equity risk is provided in the section Equity market and other investment risk .

Debt securities

Several bonds in Aegon USA s portfolio are insured by monoline insurers. Further information on the monoline insurers is provided in the section Additional information on credit risk, unrealized losses and impairments .

Money market and short-term investments

The collateral reported for the money market and short-term investments are related to tri-party repurchase agreements (repos). Within tri-party repos Aegon invests under short-term reverse repurchase agreements and the counterparty posts collateral to a third party custodian. The collateral posted is typically high-quality, short-term securities and is only accessible to Aegon in the event the counterparty defaults.

Mortgage loans

The real estate collateral for mortgages includes both residential and commercial properties. The collateral for commercial mortgage loans in Aegon Americas is measured at fair value. At a minimum on an annual basis, a fair value is estimated for each individual real estate property that has been pledged as collateral. When a loan is originally provided, an external appraisal is obtained to estimate the value of the property. In subsequent years, the value is typically estimated internally using various professionally accepted valuation methodologies. Internal appraisals are performed by qualified, professionally accredited personnel. International valuation standards are used and the most significant assumptions made during the valuation of real estate are the current cost of reproducing or replacing the property, the value that the property s net earning power will support, and the value indicated by recent sales of comparable properties. Valuations are primarily supported by market evidence. For Aegon the Netherlands, collateral for the residential mortgages is measured as the foreclosure value which is indexed periodically.

Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

Guarantees that have been received regarding mortgage loans that fulfill certain criteria of the Dutch mortgage loan guarantee (NHG) are presented in the letters of credit/guarantees column. These specific mortgage loans are partly guaranteed by a Dutch government trust (Stichting Waarborgfonds Eigen Woningen). The guarantee encompasses the remaining debt for these mortgage loans (being the remainder of the mortgage loan minus the forced sale auction value).

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Derivatives

The master netting agreements column in the table relates to derivative liability positions which are used in Aegon s credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

Reinsurance assets

The collateral related to the reinsurance assets include assets in trust that are held by the reinsurer for the benefit of Aegon. The assets in trust can be accessed to pay policyholder benefits in the event the reinsurers fail to perform under the terms of their contract. Further information on the related reinsurance transactions is included in note 27 Reinsurance assets.

Other loans

The collateral included in the other column represents the policyholders account value for policy loans. The excess of the account value over the loan value is included in the surplus collateral column. For further information on the policy loans refer to note 22.1 Financial assets, excluding derivatives.

The total collateral includes both under- and over-collateralized positions. To present a net exposure of credit risk, the over-collateralization, which is shown in the surplus collateral column, is extracted from the total collateral.

Credit risk management

Aegon manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. Normally, Aegon mitigates credit risk in derivative contracts by entering into credit support agreement, where practical, and in ISDA master netting agreements for most of Aegon s legal entities to facilitate Aegon s right to offset credit risk exposure. Main counterparties to these transactions are investment banks which are typically rated A or higher. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of derivative trades, comprised mostly of interest rate swaps, currency swaps, and credit swaps. Collateral received is mainly cash (USD and EUR). The credit support agreements that outline the acceptable collateral require high quality instruments to be posted. In 2014 and 2013, there was no default with any derivatives counterparty. The credit risk associated with financial assets subject to a master netting agreement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realized.

Aegon may also mitigate credit risk in reinsurance contracts by including down-grade clauses that allow the recapture of business, retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, Aegon employs deterministic and stochastic credit risk modeling in order to assess the Group s credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

Aegon operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are placed on the exposure at both group level and individual country units. The limits also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody s and Fitch) and Aegon s internal rating of the counterparty. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit for the country unit and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon s Group Risk and Capital Committee (GRCC). The policy is reviewed regularly.

At December 31, 2014, there were three violations of the Credit Name Limit Policy at Group level. One of these violations is expected to resolve due to the sale of the Canadian operations, subject to regulatory approval. For the other two exposures, it is being investigated if these exposures can be reduced. At December 31, 2013, there was one violation of the Credit Name Limit Policy at Group level. This violation has been resolved in 2014 through reducing the exposure.

At December 31, 2014, Aegon s largest corporate credit exposures are to Berkshire Hathaway, American United Mutual Insurance, Wells Fargo, BNP Paribas and Citigroup. Aegon had large investments in sovereign backed assets, the largest being in the USA, the Netherlands, Germany, UK and Austria. Highly rated sovereign assets (AAA rated by 3 rating agencies) and domestically issued and owned in local currency sovereign exposures are excluded from the Credit Name Limit Policy.

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Aegon group level long-term counterparty exposure limits are as follows:

Group limit

Amounts in EUR million	**2014**	2013
AAA	900	900
AA	900	900
A	675	675
BBB	450	450
BB	250	250
B	125	125
CCC or lower	50	50

Credit rating

The ratings distribution of general account portfolios of Aegon s major reporting units, excluding reinsurance assets, are presented in the table that follows, organized by rating category and split by assets that are valued at fair value and assets that are valued at amortized cost. As of 2014, Aegon has changed the rating hierarchy to align more closely with the CNLP as maintained internally by the Group. In previous years the disclosure of ratings followed a hierarchy of S&P, Moody s, Fitch, Internal and National Association of Insurance Commissioners (NAIC). Under the CNLP a composite rating is used, which is based on a combination of the ratings of the constituents mentioned. The rating used is the lower of the external rating and the internal rating. This change in methodology did not impact net income, total assets or total liabilities.

Credit rating general account investments, excluding reinsurance assets 2014	Americas		The Netherlands		United Kingdom		New Markets		Total 2014 1)		
	Amor-tized cost	Fair value	Amor-tized cost	Fair value	Amor-tized cost	Fair value	Amor-tized cost	Fair value	**Amor-tized cost**	**Fair value**	**Total carrying value**
Sovereign exposure	-	7,715	277	15,522	-	4,397	-	297	277	27,930	28,207
AAA	1,418	9,352	769	2,081	-	283	-	320	2,187	12,143	14,330
AA	3,281	6,177	182	1,047	-	1,484	-	310	3,463	9,000	12,463

A	2,104	22,738	238	2,122	-	4,199	55	1,314	2,397	30,386	32,783
BBB	194	20,940	185	2,307	-	2,154	105	1,397	483	26,799	27,282
BB	131	2,016	-	154	-	149	5	430	137	2,748	2,885
B	9	1,297	-	-	-	3	5	40	14	1,340	1,354
CCC or lower	-	861	-	18	-	-	3	12	3	891	894
Assets not rated	2,021	3,462	24,375	24,156	-	570	153	175	26,561	29,383	55,944
Total	**9,159**	**74,557**	**26,026**	**47,406**	**-**	**13,238**	**326**	**4,294**	**35,521**	**140,621**	**176,142**
Past due and / or impaired assets	28	1,540	592	122	-	2	161	23	782	1,687	2,469
At December 31	**9,187**	**76,097**	**26,618**	**47,528**	**-**	**13,240**	**487**	**4,318**	**36,303**	**142,308**	**178,611**

[1] Includes investments of Holding and other activities.

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The change in credit hierarchy has been adjusted in the comparatives. The impact of this methodology policy change on the comparative is disclosed in the following tables.

Credit rating general account investments, excluding reinsurance assets - 2013[2)]	Americas		The Netherlands		United Kingdom		New Markets		Total 2013[1)]		
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Total carrying value
Sovereign exposure	-	5,894	173	11,142	-	2,930	-	225	173	20,191	20,364
AAA	919	7,999	506	1,822	-	232	-	178	1,425	10,334	11,759
AA	3,030	4,869	143	904	-	1,087	-	181	3,173	7,041	10,214
A	1,744	20,310	215	2,301	-	3,899	86	671	2,046	27,227	29,273
BBB	257	18,721	181	2,629	-	2,194	57	1,029	494	24,574	25,068
BB	198	1,809	-	224	-	298	4	406	202	2,738	2,940
B	11	1,384	8	53	-	17	5	29	24	1,483	1,507
CCC or lower	-	1,416	-	19	-	-	2	2	2	1,437	1,439
Assets not rated	1,954	4,092	22,969	12,386	1	70	194	140	25,117	17,026	42,143
Total	**8,113**	**66,496**	**24,194**	**31,480**	**1**	**10,727**	**348**	**2,860**	**32,656**	**112,051**	**144,707**
Past due and / or impaired assets	79	1,497	638	160	-	26	160	28	877	1,711	2,588
At December 31	**8,192**	**67,992**	**24,832**	**31,641**	**1**	**10,753**	**508**	**2,888**	**33,533**	**113,762**	**147,295**

1 Includes investments of Holding and other activities.

2 Based on methodology adopted in 2014

Credit rating general account	Americas		The Netherlands		United Kingdom		New Markets		Total impact on 2013		
	Amor-	Fair value	Amor-	Fair value	Amor-	Fair value	Amor-	Fair value	Amor-	Fair value	Total carrying value

investments, excluding reinsurance assets - impact from change in rating methodology on 2013[1)]	tized cost		tized cost		tized cost		tized cost		tized cost		
Sovereign exposure	-	(49)	-	-	-	290	-	-	-	241	241
AAA	-	1,326	-	533	-	(16)	-	31	-	1,873	1,873
AA	-	(2,606)	-	(172)	-	(680)	-	(52)	-	(3,511)	(3,511)
A	-	(1,042)	-	(475)	-	250	-	(7)	-	(1,274)	(1,274)
BBB	-	1,472	-	109	-	35	-	15	-	1,633	1,633
BB	-	54	(3)	21	-	115	-	8	(3)	199	196
B	-	224	4	(17)	-	6	-	6	4	219	223
CCC or lower	-	619	-	-	-	-	-	-	-	619	619
Assets not rated	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Past due and / or impaired assets	-	-	-	-	-	-	-	-	-	-	-
At December 31	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

1 Reflects difference in classification of the methodology operated in 2014 compared to the methodology operated in 2013.

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The following table shows the credit quality of the gross positions in the statement of financial position for general account reinsurance assets specifically:

	Carrying value 2014	Carrying value 2013 [1)]
AAA	7	7
AA	2,376	3,041
A	6,768	5,252
Below A	14	1,620
Not rated	329	334
At December 31	**9,494**	**10,253**

[1] For 2013, the credit classification is restated for the change in rating methodology.

Credit risk concentration

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

Credit risk concentrations debt securities and money market investments 2014	Americas	The Netherlands	United Kingdom	New Markets	**Total 2014** [1)]	Of which past due and / or impaired assets
Residential mortgage-backed securities (RMBSs)	4,584	932	21	64	5,601	1,405
Commercial mortgage-backed securities (CMBSs)	5,178	118	434	312	6,042	12
Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans	784	1,859	-	4	2,647	8
ABSs - Other	2,229	440	2,124	165	4,957	57
Financial - Banking	7,241	753	1,405	669	10,163	9
Financial - Other	10,423	184	1,072	415	12,106	3
Industrial	26,815	2,747	2,398	1,310	33,270	16
Utility	4,041	615	1,010	164	5,831	-
Sovereign exposure	8,811	15,602	4,415	1,177	30,005	37

At December 31	**70,105**	**23,250**	**12,880**	**4,280**	**110,622**	**1,547**

[1] Includes investments of Holding and other activities.

Credit risk concentrations debt securities and money market investments 2013	Americas	The Netherlands	United Kingdom	New Markets	Total 2013 [1)]	Of which past due and / or impaired assets
Residential mortgage-backed securities (RMBSs)	4,360	1,143	19	112	5,634	1,282
Commercial mortgage-backed securities (CMBSs)	4,723	82	398	134	5,337	43
Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans	562	1,379	-	-	1,941	43
ABSs - Other	2,079	184	1,682	97	4,041	64
Financial - Banking	5,768	1,079	1,501	267	8,710	20
Financial - Other	9,124	189	1,242	239	10,802	2
Industrial	22,911	3,122	2,089	837	28,959	37
Utility	5,027	687	823	162	6,699	-
Sovereign exposure	8,233	11,231	2,930	968	23,362	-
At December 31	**62,787**	**19,095**	**10,683**	**2,816**	**95,485**	**1,491**

[1] Includes investments of Holding and other activities.

Credit risk concentrations mortgage loans	Americas	The Netherlands	United Kingdom	New Markets	Total 2014 1)	Of which past due and / or impaired assets
Agricultural	86	-	-	-	86	9
Apartment	2,030	-	-	-	2,030	-
Industrial	857	-	-	-	857	2
Office	2,096	14	-	-	2,110	10
Retail	1,800	-	-	-	1,800	7
Other commercial	297	53	-	-	351	4
Residential	26	24,186	-	285	24,496	699
At December 31	**7,192**	**24,253**	**-**	**285**	**31,729**	**731**

1 Includes investments of Holding and other activities.

Credit risk concentrations mortgage loans	Americas	The Netherlands	United Kingdom	New Markets	Total 2013 1)	Of which past due and / or impaired assets
Agricultural	142	-	-	-	142	6
Apartment	1,253	-	-	-	1,253	17
Industrial	882	-	-	-	882	18
Office	2,023	16	-	-	2,039	26
Retail	1,640	15	-	-	1,655	9
Other commercial	300	42	-	-	342	11
Residential	27	22,705	-	324	23,056	702
At December 31	**6,267**	**22,777**	**-**	**324**	**29,369**	**789**

1 Includes investments of Holding and other activities.

The fair value of Aegon Americas commercial and agricultural mortgage loan portfolio as per December 31, 2014, amounted to EUR 7,622 million (2013: EUR 6,514 million). The loan to value (LTV) amounted to approximately 57% (2013: 59%). Of the portfolio 0.23% (2013: 0.24%) is in delinquency (defined as 60 days in arrears). In 2014, Aegon Americas recognized EUR 8 million impairments (net of recoveries) (2013: EUR 11 million) on this portfolio. In 2014, Aegon Americas foreclosed upon, or recovered EUR 16 million (2013: EUR 73 million) of real estate. The 2014 additional impairments associated with these loans at the time of foreclosure amounted to EUR 1 million (2013: impairment recoveries of EUR 4 million).

The fair value of Aegon the Netherlands mortgage loan portfolio as per December 31, 2014, amounted to EUR 28,758 million (2013: EUR 26,114 million). The LTV amounted to approximately 95% (2013: 99%). A significant part of the portfolio (60%; 2013: 58%) is government guaranteed. Of the portfolio, 0.9% (2013: 1.2%) is in delinquency (defined as 60 days in arrears). Impairments in 2014 amounted to EUR 4 million (2013: EUR 22 million). Historical defaults of the portfolio have been between 2 and 9 basis points per year.

Unconsolidated structured entities

Aegon s investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented in the line item Investments of the statement of financial position. The composition of the structured entities portfolios of Aegon are widely dispersed looking at the individual amount per entity. This is shown in the following table together with the number of individual entities:

	December 31, 2014		December 31, 2013	
	Number of entities	Carrying amount	Number of entities	Carrying amount
EUR 0 - 25 million	2,070	9,310	2,303	9,476
EUR 26 - 50 million	180	6,137	139	4,602
EUR 51 - 75 million	36	2,174	30	1,724
EUR 76 - 100 million	14	1,233	10	848
EUR 101 - 150 million	2	219	1	146
EUR 151- 250 million	1	175	1	158
> EUR 251 million	-	-	-	-
At December 31	**2,303**	**19,248**	**2,484**	**16,953**

For the most significant structured entities the following table presents the maximum exposure to loss excluding government guarantees for Aegon by type of structured security and by seniority of interest. Also shown are the amounts of losses that in each case would be absorbed first by investors whose interests rank junior to those of Aegon. If Aegon has interests in multiple tranches of one individual structured entity, Aegon s maximum exposure to loss is excluded from the amount shown as potential losses borne by more junior interests. In each case, the amounts shown reflect the fair value of those interests as at the reporting date. Furthermore, the table presents a comparison of Aegon s interest with the total assets of those unconsolidated structured entities. The amount shown as total assets is based on the most current available information.

2014	Subordinated interests		Mezzanine interests		Senior interests		Most senior interests		Carrying amount of interest in structured entity		**Total Assets of struc-**
	Maximum exposure to	Potential losses borne by more	Maximum exposure to	Potential losses borne by	Maximum exposure to	Potential losses borne by more junior	Maximum exposure to loss	Potential losses borne by more junior	Assets	Liabilities	

	loss	junior interests	loss	more junior interests	loss	interests		interests			tured entity
Residential mortgage-backed securities	-	-	-	-	-	-	392	1,742	392	-	8,511
Commercial mortgage-backed securities	-	-	50	166	-	-	383	1,542	433	-	4,644
Asset-backed securities	46	342	42	385	-	-	188	503	277	-	1,302
ABSs - Other	-	-	-	-	-	-	81	-	81	-	2,358
December 31, 2014	**46**	**342**	**92**	**551**	**-**	**-**	**1,045**	**3,786**	**1,183**	**-**	**16,815**

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2013	Subordinated interests: Maximum exposure to loss	Subordinated interests: Potential losses borne by more junior interests	Mezzanine interests: Maximum exposure to loss	Mezzanine interests: Potential losses borne by more junior interests	Senior interests: Maximum exposure to loss	Senior interests: Potential losses borne by more junior interests	Most senior interests: Maximum exposure to loss	Most senior interests: Potential losses borne by more junior interests	Carrying amount of interest in structured entity: Assets	Carrying amount of interest in structured entity: Liabilities	Total: Assets of structured entity
Residential mortgage-backed securities	-	-	35	6,037	-	-	298	8,948	333	-	29,319
Commercial mortgage-backed securities	-	-	-	-	134	987	109	1,183	243	-	3,580
Asset-backed securities	52	198	69	354	-	-	179	557	300	-	1,234
ABSs - Other	-	-	-	-	76	-	-	-	76	-	3,052
December 31, 2013	**52**	**198**	**105**	**6,391**	**211**	**987**	**585**	**10,688**	**952**	**-**	**37,184**

For unconsolidated structured entities in which Aegon has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflects the carrying values recognized in the statement of financial position of Aegon s interests in unconsolidated structured entities. Aegon did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

2014	Total income for the year ended December 31, 2014: Interest income	Total income for the year ended December 31, 2014: Total gains and losses on sale of assets	Total income for the year ended December 31, 2014: **Total**	December 31, 2014: Investments
Residential mortgage-backed securities	236	181	417	5,601
Commercial mortgage-backed securities	220	191	411	6,042
Asset-backed securities	47	3	50	2,647

ABSs - Other	170	547	717	4,957
Total	**673**	**922**	**1,594**	**19,248**

	Total income for the year ended December 31, 2013			December 31, 2013
2013	Interest income	Total gains and losses on sale of assets	Total	Investments
Residential mortgage-backed securities	269	328	597	5,634
Commercial mortgage-backed securities	236	(165)	71	5,337
Asset-backed securities	35	3	38	1,941
ABSs - Other	175	21	195	4,041
Total	**715**	**186**	**902**	**16,953**

Aegon did not provide financial or other support to unconsolidated structured entities. Nor does Aegon have intentions to provide financial or other support to unconsolidated structured entities in which Aegon has an interest or previously had an interest.

Monoline insurers

About EUR 0.5 billion of the bonds in Aegon USA s portfolio are insured by monoline insurers (2013: EUR 0.8 billion), of which EUR 261 million of bonds (2013: EUR 343 million) in the EUR 0.9 billion subprime portfolio (2013: EUR 1.0 billion). Expected claims against the monolines amounted to EUR 68 million (2013: EUR 98 million), although an insolvency by one of the monolines could create significant market price volatility for the affected holdings.

The following table breaks down bonds in Aegon USA s portfolio that are insured by monoline insurers.

	2014		2013 1)	
Bonds insured by monoline insurers	**Amortized cost**	**Fair value**	Amortized cost	Fair value
AAA	4	4	32	34
AA	9	9	16	17
< AA	497	475	703	674
At December 31	**510**	**488**	**751**	**725**

1 For 2013, the credit classification is restated for the change in rating methodology.

The rating that is provided by the rating agencies on these guaranteed bonds is the higher of the guarantor s rating or the rating of the underlying bond itself.

Of the EUR 510 million (2013: EUR 751 million) indirect exposure on the monoline insurers, 40% relates to MBIA, 14% to AMBAC, and 36% to FSA (2013: 34% related to MBIA, 28% to AMBAC, 24% to FSA and 7% to FGIC).

At the end of 2014, Aegon USA had one indirect exposure of EUR 22 million via wrapped bonds via holdings in monoline insurers and derivative counterparty exposure where monoline insurers are Aegon s counterparty (2013: no indirect exposure).

Additional information on credit risk, unrealized losses and impairments

Debt instruments

The amortized cost and fair value of debt securities, money market investments and other, included in Aegon s available-for-sale (AFS) portfolios, are as follows as of December 31, 2014, and December 31, 2013:

2014	Amortized cost	Unrealized gains	Unrealized losses	**Total fair value**	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses

Debt securities						
United States government	6,731	1,092	(22)	7,801	6,693	1,108
Dutch government	4,705	1,025	(1)	5,729	5,707	23
Other government	13,439	2,559	(29)	15,969	15,510	459
Mortgage-backed securities	10,017	637	(124)	10,530	8,559	1,971
Asset-backed securities	8,011	696	(123)	8,584	5,672	2,912
Corporate	47,561	5,758	(435)	52,884	46,566	6,318
Money market investments	6,799	-	-	6,799	6,799	-
Other	1,136	204	(30)	1,310	1,140	170
Total	**98,399**	**11,971**	**(764)**	**109,606**	**96,646**	**12,960**
Of which held by Aegon Americas, NL and UK	94,409	11,656	(743)	105,323	93,142	12,181

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2013	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Debt securities						
United States government	5,538	241	(257)	5,522	2,621	2,901
Dutch government	3,705	144	(25)	3,824	3,441	383
Other government	12,766	738	(232)	13,272	9,317	3,954
Mortgage-backed securities	9,433	613	(246)	9,800	6,886	2,914
Asset-backed securities	6,780	401	(162)	7,019	4,171	2,848
Corporate	45,851	3,586	(712)	48,725	38,576	10,149
Money market investments	5,524	-	-	5,524	5,524	-
Other	1,042	148	(28)	1,163	1,002	160
Total	**90,638**	**5,873**	**(1,662)**	**94,849**	**71,539**	**23,310**
Of which held by Aegon Americas, NL and UK	87,900	5,728	(1,603)	92,026	69,573	22,453

Unrealized bond losses by sector

The composition by industry category of Aegon s available-for-sale (AFS) debt securities and money market investments in an unrealized loss position at December 31, 2014, and December 31, 2013, is presented in the following table:

Unrealized losses - debt securities and money market investments	**December 31, 2014** Carrying value of instruments with unrealized losses	**December 31, 2014** Gross unrealized losses	December 31, 2013 Carrying value of instruments with unrealized losses	December 31, 2013 Gross unrealized losses
Residential mortgage-backed securities (RMBSs)	1,249	(145)	1,842	(210)
Commercial mortgage-backed securities (CMBSs)	987	(18)	1,559	(91)
	1,552	(54)	1,188	(51)

Asset-backed securities (ABSs) - CDOs backed by ABS, Corp. bonds, Bank loans				
ABSs - Other	980	(26)	1,037	(48)
Financial Industry - Banking	1,228	(179)	1,834	(215)
Financial Industry - Insurance	242	(15)	827	(47)
Financial Industry - Other	325	(15)	601	(37)
Industrial	3,835	(197)	5,569	(316)
Utility	239	(11)	916	(63)
Sovereign	1,375	(51)	6,920	(499)
Total held by Aegon Americas, NL and UK	**12,011**	**(713)**	**22,293**	**(1,575)**
Held by other segments	779	(21)	857	(60)
Total	**12,790**	**(734)**	**23,150**	**(1,635)**

As of December 31, 2014, there are EUR 11,452 million (December 31, 2013: EUR 5,580 million) of gross unrealized gains and EUR 713 million (December 31, 2013: EUR 1,575 million) of gross unrealized losses in the AFS debt securities portfolio of Aegon Americas, Aegon the Netherlands and Aegon UK. One issuer, Belfius Bank SA, represents more than 4% of the total unrealized loss position.

After a strong first half of 2014, financial and credit market conditions weakened significantly over the second half of the year. In spite of improving US economic conditions, developed-world growth remains below potential, lessening the chance for a strong recovery. European sovereign debt yields have fallen materially in anticipation of further loosening of monetary policy in the European Union. US equity markets performed well during 2014, while most global markets had relatively modest returns. The US Federal Reserve maintained a Fed Funds rate near zero, but ended purchases under its quantitative easing program. US Treasury rates fell over the course of the year. Corporate default rates have remained low due largely to readily available access to funding and strong corporate balance sheet fundamentals. However, credit spreads widened significantly during the second half of 2014, ending the year wider than beginning levels for most asset types. Commodity prices were significantly lower, led by a dramatic fall in the price of oil, due to excess supply. The decrease in US Treasury rates caused the market values of fixed income holdings to increase relative to their carrying values.

Impairment of financial assets

Aegon regularly monitors industry sectors and individual debt securities for indicators of impairment. These indicators may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations by the issuer, 5) high probability of bankruptcy of the issuer, or 6) internationally recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that not all amounts due (both principal and interest) will be collected as contractually scheduled.

In the sections below a description is provided on the composition of the categories of debt securities and money market investments. Individual issuers rated below investment grade in any sector which have unrealized loss positions greater than EUR 25 million are disclosed separately. Furthermore, quality ratings of investment portfolios are based on a composite of the main rating agencies (S&P, Moody s and Fitch) and Aegon s internal rating of the counterparty.

Residential mortgage-backed securities

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 5,449 million (December 31, 2013: EUR 5,461 million) of residential mortgage-backed securities available-for-sale (RMBS), of which EUR 4,499 million (December 31, 2013: EUR 4,300 million) is held by Aegon Americas, EUR 932 million (December 31, 2013: EUR 1,143 million) by Aegon the Netherlands, and EUR 21 million (December 31, 2013: EUR 19 million) by Aegon UK. Residential mortgage-backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit characteristics and are pooled together and sold in tranches. The following table shows the breakdown of Aegon USA s RMBS available-for-sale portfolio. Additionally, Aegon USA has investments in RMBS of EUR 88 million (December 31, 2013: EUR 60 million), which are classified as fair value through profit or loss.

AFS RMBS by quality	AAA	AA	A	BBB	<BBB	**Total amortized cost**	**Total fair value**
GSE guaranteed	1,564	-	-	-	-	1,564	1,615
Prime jumbo	1	1	1	14	221	238	244
Alt-A	-	-	31	3	489	523	632
Negative amortization floaters	-	-	-	15	745	760	850
Reverse mortgage RMBS	-	-	-	141	102	243	175
Subprime mortgage 1)	6	57	168	96	536	864	944
Manufactured housing 1)	-	-	1	14	21	36	37
Other housing 1)	2	-	-	-	-	2	2
At December 31, 2014	**1,573**	**58**	**201**	**283**	**2,114**	**4,230**	**4,499**

Of which insured	-	-	146	1	224	372	355

[1] Reported as part of asset-backed securities in the table on page 167.

AFS RMBS by quality [1)]	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
GSE guaranteed	1,326	-	-	-	-	1,326	1,357
Prime jumbo	1	1	1	15	216	233	238
Alt-A	-	-	32	3	511	546	642
Negative amortization floaters	-	-	-	15	715	730	830
Reverse mortgage RMBS	-	-	-	135	116	251	179
Subprime mortgage [2)]	89	204	74	80	528	974	1,003
Manufactured housing [2)]	6	9	5	13	15	47	48
Other housing [2)]	2	-	-	-	-	2	2
At December 31, 2013	**1,423**	**214**	**112**	**260**	**2,100**	**4,108**	**4,300**
Of which insured	-	-	146	2	238	385	372

[1] For 2013, the credit classification is restated for the change in rating methodology.

[2] Reported as part of asset-backed securities in the table on page 168.

RMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and stress-case scenarios. Aegon s RMBS asset specialists utilize widely recognized industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. Key assumptions used in the models are projected defaults, loss severities, and prepayments. Each of these key assumptions varies greatly based on the significantly diverse characteristics of the current collateral pool for each security. Loan-to-value, loan size, and borrower credit history are some of the key characteristics used to determine the level of assumption that is utilized. Defaults were estimated by identifying the loans that are in various delinquency buckets and defaulting a certain percentage of them over the near-term and long-term. Assumed defaults on delinquent loans are dependent on the specific security s collateral attributes and historical performance.

Loss severity assumptions were determined by obtaining historical rates from broader market data and by adjusting those rates for vintage, specific pool performance, collateral type, mortgage insurance and estimated loan modifications. Prepayments were estimated by examining historical averages of prepayment activity on the underlying collateral. Quantitative ranges of significant assumptions within Aegon s modeling process for Prime jumbo, Alt-A and Negative amortization RMBS are as follows: prepayment assumptions range from approximately 0.5% to 36% with a weighted average of approximately 4.8% (December 31, 2013: 4.8%), assumed defaults on delinquent loans range from 50% to 100% with a weighted average of approximately 86.3% (December 31, 2013: 84.3%), assumed defaults on current loans are dependent on the specific security s collateral attributes and historical performance, while loss severity assumptions range from approximately 13.9% to 75%, with a weighted average of approximately 54.7% (December 31, 2013: 54.5%). Additionally, quantitative ranges of significant assumptions within Aegon s modeling process for the RMBS subprime mortgage portfolio are as follows: prepayment assumptions range from approximately 2% to 15% with a weighted average of approximately 6.2% (December 31, 2013: 5.2%), assumed defaults on delinquent loans range from 60% to 100% with a weighted average of approximately 89.9% (December 31, 2013: 87.2%), assumed defaults on current loans are dependent on the specific security s collateral attributes and historical performance, while loss severity assumptions range from approximately 39% to 103%, with a weighted average of approximately 73.3% (December 31, 2013: 72.6%).

Once the entire pool is modeled, the results are closely analyzed by Aegon s asset specialists to determine whether or not Aegon s particular tranche or holding is at risk for not collecting all contractual cash flows taking into account the seniority and other terms of the tranches held. Aegon impairs its particular tranche to fair value where it would not be able to receive all contractual cash flows.

The total gross unrealized loss on AFS RMBS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 145 million (December 31, 2013: 210 million), of which EUR 142 million (December 31, 2013: EUR 190 million) relates to positions of Aegon USA, and the total net unrealized gain on available-for-sale RMBS was EUR 309 million (December 31, 2013: EUR 229 million), including a EUR 269 million (December 31, 2013: EUR 192 million) net unrealized gain relating to positions of Aegon USA. The housing market in the United States has continued to improve as evidenced by rising home prices and sales volume. The pace of improvement has slowed considerably in the second half of 2014, and is expected to continue to moderate in the coming years. The positive trends in the housing market have led to improvements in borrower delinquencies and prepayment rates as well as liquidation timelines. Loss severities on liquidated properties remain elevated for subprime loans but are starting to show signs of improvement for other RMBS sectors. The improving housing market and underlying loan credit performance led to credit spread tightening across the asset class during 2014.

There are no individual issuers rated below investment grade in this RMBS sector which have unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA s RMBS instruments were determined as follows:

	Level II	Level III	**Total 2014**	Level II	Level III	Total 2013
RMBS	4,320	264	4,584	4,089	271	4,360

Commercial mortgage-backed securities

As of December, 31, 2014, Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 5,701 million (December 31, 2013: EUR 5,160 million) of AFS commercial mortgage-backed securities (CMBS), of which EUR 5,149 million (December 31, 2013: EUR 4,663 million) is held by Aegon USA, EUR 434 million (December 31, 2013: EUR 398 million) by Aegon UK and EUR 118 million (December 31, 2013: EUR 82 million) by Aegon the Netherlands. CMBS are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The company s CMBS include conduit, large loan, single borrower, commercial real estate collateralized debt obligations (CRE CDOs), collateralized debt obligations (CDOs), government agency, and franchise loan receivable trusts.

The total gross unrealized loss on AFS CMBS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 18 million as of December 31, 2014 (December 31, 2013: EUR 91 million). All gross unrealized losses relate to positions held by Aegon USA. The total net unrealized gain on the available-for-sale CMBS as of December 31, 2014, is EUR 275 million (December 31, 2013: EUR 162 million), of which EUR 167 million (December 31, 2013: EUR 88 million) relates to positions of Aegon USA, followed by Aegon UK at EUR 104 million and Aegon the Netherlands at EUR 3 million. Throughout 2014, CMBS fundamentals continued to improve as the pace of credit deterioration moderated, commercial real estate valuations continued to improve and there was a greater availability of financing. Liquidity has improved within the CMBS market; however, credit spreads on many legacy subordinate CMBS tranches remain at wide levels.

The tables below summarize the credit quality of Aegon USA s AFS CMBS portfolio. Additionally, Aegon USA has investments in CMBS of EUR 29 million (December 31, 2013: EUR 38 million), which are classified as fair value through profit or loss.

CMBS by quality	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Total amortized cost**	**Total fair value**
CMBS	4,038	548	103	119	173	4,981	5,149
At December 31, 2014	**4,038**	**548**	**103**	**119**	**173**	**4,981**	**5,149**

CMBS by quality [1)]	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
CMBS	3,714	343	202	135	180	4,575	4,663
At December 31, 2013	**3,714**	**343**	**202**	**135**	**180**	**4,575**	**4,663**

[1] For 2013, the credit classification is restated for the change in rating methodology.

CMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and several stress-case scenarios by Aegon s internal CMBS asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach. For non-conduit securities, a CMBS asset specialist works closely with Aegon s real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur.

Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on its tranches. As the remaining unrealized losses in the CMBS portfolio relate to holdings where Aegon expects to receive full principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2014.

There are no individual issuers rated below investment grade in the CMBS sector which have unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA s CMBS instruments were determined as follows:

	Level II	Level III	Total 2014	Level II	Level III	Total 2013
CMBS	5,119	59	5,178	4,674	28	4,702

Asset-backed securities

Aegon Americas, Aegon the Netherlands and Aegon UK hold EUR 7,420 million (December 31, 2013: EUR 5,837 million) of AFS ABS instruments of which EUR 2,997 million (December 31, 2013: EUR 2,592 million) is held by Aegon USA, EUR 2,300 million (December 31, 2013 : EUR 1,563 million) by Aegon the Netherlands and EUR 2,124 million (December 31, 2013: EUR 1,682 million) by Aegon UK. Additionally, Aegon Americas has investments in ABS of EUR 16 million (December 31, 2013: EUR 24 million), which are classified as fair value through profit or loss. ABS are securitizations of underlying pools of credit card receivables, auto financing loans, small business loans, bank loans, and other receivables. The underlying assets of the asset backed securities have been pooled together and sold in tranches with varying credit ratings.

The total gross unrealized loss on AFS ABS of Aegon Americas, Aegon the Netherlands and Aegon UK amounted to EUR 80 million as of December 31, 2014 (December 31, 2013: EUR 99 million). Aegon USA has EUR 38 million (December 31, 2013: EUR 52 million) of this gross unrealized loss, Aegon the Netherlands EUR 41 million (December 31, 2013: EUR 40 million) and Aegon UK EUR 1 million (December 31, 2013: EUR 7 million). The stronger financial and economic conditions have helped stabilize in the US, and improve in Europe, the performance of the underlying collateral backing many of these securities. The European ABS market is well supported by the following strong technicals: the ABS purchase program from the ECB, the shortage of supply and the search for yield. The combination of these factors has led to a decrease in credit spreads over 2014. In the United States, increasing investor demand has been met with new issuance in the asset-backed sector. The combination of these factors has led to varied performance by sector with most sectors exhibiting wider credit spreads over the course of the year.

The breakdown by quality of the available-for-sale ABS portfolio of Aegon USA, Aegon the Netherlands and Aegon UK is as follows:

ABS US, NL and UK	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
Credit cards	382	36	77	42	-	536	556
Autos	220	11	15	4	-	251	252
Small business loans	-	5	23	51	114	193	187
CDOs backed by ABS, Corp. bonds, Bank loans	1,277	750	357	117	179	2,680	2,643
Other ABS	771	442	1,657	367	34	3,271	3,782
At December 31, 2014	**2,650**	**1,243**	**2,129**	**581**	**327**	**6,931**	**7,420**

ABS US, NL and UK [1)]	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
Credit cards	273	9	184	55	1	522	538
Autos	266	9	32	-	-	308	311
Small business loans	-	3	19	98	98	219	211
CDOs backed by ABS, Corp. bonds, Bank loans	730	612	359	97	180	1,978	1,950
Other ABSs	490	379	1,172	332	226	2,599	2,827
At December 31, 2013	**1,759**	**1,013**	**1,766**	**582**	**505**	**5,626**	**5,837**

[1] For 2013, the credit classification is restated for the change in rating methodology.

There were no individual issuers rated below investment grade in this ABS sector which has unrealized loss position greater than EUR 25 million.

The fair values of Aegon USA, Aegon the Netherlands and Aegon UK ABS instruments were determined as follows:

	Level II	Level III	Total 2014	Level II	Level III	Total 2013
ABSs	4,467	2,969	7,436	3,604	2,257	5,861

Corporate - Financial sector

The Corporate - Financial sector is further subdivided into banking, brokerage, insurance, REIT s and Financial - Other sub-sectors. A majority of the gross unrealized loss in Aegon s available-for-sale portfolio is from the banking sub-sector.

Corporate Financial sector Banking sub-sector

The Banking sub-sector in Aegon s portfolio is relatively large, diverse, and of high quality. Aegon holds EUR 9,458 million (December 31, 2013: EUR 8,288 million) of AFS bonds issued by banks. In aggregate, the gross unrealized loss on these bonds amounted to EUR 181 million (December 31, 2013: EUR 220 million) and the net unrealized gain on these bonds amounted to EUR 489 million (December 31, 2013: EUR 226 million).

Bank regulators are implementing a wide array of reforms designed to strengthen capital levels, reduce balance sheet risk and improve liquidity in an attempt to reduce systemic risk. Many banks already meet new capital and liquidity requirements, well ahead of regulatory deadlines. In addition, regulators and central governments are adopting new bank guidelines, which are designed to reduce systemic risk by tapping loss-absorbing capital, as needed, to recapitalize or resolve a bank without using taxpayer money. Globally, risk concentrations on bank balance sheets continue to exist, and ratings for some banks remain under pressure, but central banks are accommodative and confidence in the sector has increased materially since the financial crisis.

Within the Banking sub-sector, Aegon holds EUR 1,230 million (December 31, 2013: EUR 1,433 million) of deeply subordinated securities with deferrable coupons that have an associated unrealized loss of EUR 114 million (December 31, 2013 EUR 130 million).

There is one individual issuer rated below investment grade in the Banking sub-sector which has unrealized losses greater than EUR 25 million.

	Category	Fair value	Unrealized loss	Rating	Aging of unrealized loss
Belfius Bank SA	Banking	74	39	BB	> 24 months

Aegon s available-for-sale debt securities for Belfius Bank SA have a fair value of EUR 74 million as of December 31, 2014 (December 31, 2013: EUR 99 million). These below investment grade securities had gross unrealized losses of EUR 39 million as of December 31, 2014 (December 31, 2013: EUR 26 million). Belfius Bank SA was created subsequent to the restructuring of Dexia SA. Dexia s reliance on short-term wholesale funding caused a near-collapse as funding markets froze in 2008 and 2009. Capital injections from Belgium, France and Luxembourg along with guarantees on Dexia s funding provided sufficient access to funding markets until the Sovereign debt crisis in 2011 put too much strain on Dexia s large funding needs. In November 2011, a new restructuring plan was put in place for Dexia SA and 100% of Dexia Bank Belgium was sold to the Belgian state. Aegon s bonds now form part of the capital structure of that entity which was rebranded as Belfius Bank SA during the first half of 2012. Payments continue to be made on Aegon s holdings in accordance with the original bond agreements. Aegon evaluated the near-term prospects of the issuer and it believes that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2014.

Corporate - Industrial sector

The Corporate - Industrial sector is further subdivided into various sub-sectors. A majority of Aegon s available-for-sale portfolio gross unrealized loss is in the Basic industry and Consumer non-cyclical sub-sectors.

The Basic industry sector encompasses various sub-sectors including metals and mining, chemicals and paper and forest products with the majority of the gross unrealized loss relating to metals and mining. Fundamentals for the metals and mining industry have been negatively impacted by falling prices for base metals, ferrous metals, precious metals, iron ore and coal. Slowing economic data out of China has been the main driver of the pricing pressure for the base metals and bulk steel-making commodities as the country comprises from 40% to 60% of the demand for most of these commodities. Chemicals have been positively impacted by continued low natural gas prices within the United States, but given the global scale of most players in the industry, they have also been harmed by a slowdown in global growth as well as volatility in raw material costs, increasing competition from global peers and the potential for lower margins given falling oil prices. Paper and forest products have shown some improvement as the housing recovery takes hold in the United States, but more traditional paper products, such as newsprint, remain challenged. Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2014.

The Consumer non-cyclical sub-sector encompasses various industries ranging from consumer products to supermarkets. The more significant of these sub-sectors from an unrealized loss perspective are food and beverage and pharmaceuticals. Food and beverage balance sheets continue to be solid as the slow growth environment remains in place. Modest price increases, tight cost controls and cost savings programs have helped offset continued volume weakness, but with the low hanging fruit gone mergers/acquisitions and shareholder friendly activities have increased. While showing signs of stabilization, the Pharmaceutical sector continues to deal with patent cliff issues. As drugs roll off patent, generic competition takes market share and pulls down margins. Additionally, shareholder friendly activities in the form of increased dividends and share repurchases continue. Merger and acquisition activity continues to be prevalent in the sector, at times resulting in additional leverage. Finally, some companies have analyzed their business models and decided to spin off business lines, in an effort to concentrate on their core competencies. In certain instances, this has resulted in smaller, less diversified companies. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2014.

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There are no individual issuers rated below investment grade in the Corporate Industrial sector which have unrealized loss positions greater than EUR 25 million.

Corporate - Energy industry sector

The Energy Industry sector encompasses various sub-sectors including integrated oil and gas producers, independent oil and gas producers, midstream processing and transport, oil field services and drilling, and refining. The majority of the gross unrealized loss relates to independent oil and gas producers, as well as oil field services and drilling. Falling oil prices, and continued low natural gas prices, have reduced cash flow for upstream oil and gas producers. Oil field service and drilling companies have been pressured by the prospect of margin pressure resulting from new capacity additions and the prospect of lower capital spending by their upstream client base. Commodity price pressure stem from strong non-OPEC supply growth, softening global demand, and shifting OPEC policy. Midstream processing and transport companies have thus far not been materially pressured by falling commodity prices, although reduced upstream capital spending would impact volume growth. Refiners have seen positive near term impacts from lower feedstock costs. Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2014.

Sovereign

Aegon Americas, Aegon the Netherlands and Aegon UK s government issued available-for-sale debt securities include emerging market sovereign bonds, US Treasury bonds, agency and state bonds. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2014.

There are no individual issuers rated below investment grade in the sovereign sector which have unrealized loss positions greater than EUR 25 million.

Unrealized loss by maturity

The table below shows the composition by maturity of all available-for-sale debt securities in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	December 31, 2014		December 31, 2013	
	Carrying value of securities with gross unrealized losses	**Gross unrealized losses**	Carrying value of securities with gross unrealized losses	Gross unrealized losses
One year or less	674	(6)	406	(8)

Over 1 through 5 years	3,178	(136)	2,955	(100)
Over 5 through 10 years	3,891	(145)	6,196	(327)
Over 10 years	4,268	(425)	12,736	(1,140)
Total	**12,011**	**(713)**	**22,293**	**(1,575)**

Unrealized loss by credit quality

The table below shows the composition by credit quality of debt securities, available-for-sale, in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	December 31, 2014		December 31, 2013 [1)]	
	Carrying value of securities with gross unrealized losses	**Gross unrealized losses**	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Treasury Agency	1,210	(26)	6,476	(459)
AAA	1,829	(17)	2,503	(98)
AA	1,150	(25)	1,324	(53)
A	2,080	(93)	3,930	(219)
BBB	3,570	(250)	5,751	(404)
BB	1,060	(172)	1,152	(145)
B	615	(41)	624	(91)
Below B	498	(89)	533	(106)
Total	**12,011**	**(713)**	**22,293**	**(1,575)**

[1] For 2013, the credit classification is restated for the change in rating methodology.

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

At December 31, 2014	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 6 months	4,799	1,058	(104)	(58)
6 12 months	637	104	(21)	(9)
> 12 months	4,403	1,011	(286)	(234)
Total	**9,839**	**2,173**	**(411)**	**(302)**

At December 31, 2013	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 6 months	9,099	584	(301)	(29)
6 12 months	7,278	288	(581)	(33)
> 12 months	3,641	1,403	(356)	(275)

Total	**20,018**	**2,275**	**(1,239)**	**(336)**

The unrealized loss improved significantly during 2014 due to declining interest rates. Credit spreads widened during 2014, which partially offset this improvement.

Aging and severity unrealized losses

The table below provides the length of time a below investment grade security has been in an unrealized loss and the percentage of carrying value (CV) to amortized cost in Aegon Americas, Aegon the Netherlands and Aegon UK.

Aging and severity unrealized losses	2014 **Carrying value**	**Unrealized losses**	2013 Carrying value	Unrealized losses
CV 70-100% of amortized cost	1,054	(55)	583	(27)
CV 40-70% of amortized cost	4	(3)	1	(1)
CV < 40% of amortized cost	-	-	-	(1)
0-6 months	**1,058**	**(58)**	**584**	**(29)**
CV 70-100% of amortized cost	104	(9)	275	(26)
CV 40-70% of amortized cost	-	-	12	(6)
CV < 40% of amortized cost	-	-	-	-
6-12 months	**104**	**(9)**	**288**	**(33)**
CV 70-100% of amortized cost	137	(9)	46	(4)
CV 40-70% of amortized cost	17	(14)	1	-
CV < 40% of amortized cost	-	(1)	-	-
12-24 months	**154**	**(24)**	**47**	**(4)**
CV 70-100% of amortized cost	713	(118)	1,291	(211)
CV 40-70% of amortized cost	136	(76)	59	(38)

CV < 40% of amortized cost	7	(16)	6	(22)
> 24 months	**857**	**(210)**	**1,356**	**(270)**
Total	**2,173**	**(302)**	**2,275**	**(336)**

There is one individual issuer, Belfius Bank SA, rated below investment grade that has an unrealized loss greater than EUR 25 million. This issuer has been separately disclosed above in the Corporate Financial sector Banking sub-sector portion of note 4.

Realized gains and losses on debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK

The following table provides the realized gains and losses on the debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK for the twelve months ended December 31, 2014, and December 31, 2013.

Realized gains and losses on debt securities of Aegon Americas, Aegon the Netherlands and Aegon UK	Gross realized gains	Gross realized losses
December 31, 2014		
Debt securities	584	(124)
December 31, 2013		
Debt securities	565	(148)

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired.

	Gross realized losses		
	0 - 12 months	> 12 months	Total
December 31, 2014			
Debt securities	(58)	(66)	(124)
December 31, 2013			
Debt securities	(92)	(56)	(148)

Impairment losses and recoveries

The composition of Aegon Americas, Aegon the Netherlands and Aegon UK s bond impairment losses and recoveries by issuer for the periods ended December 31, 2014, and December 31, 2013, is presented in the table below. Those issuers with impairments or recoveries above EUR 25 million are specifically noted.

	2014 (Impairment) / recovery	2013 (Impairment) / recovery

Impairments:		
Soundview Home Equity Loan 2006-OPT1	-	(29)
Other (none individually greater than EUR 25 million)	(36)	(102)
Subtotal	**(36)**	**(131)**
Recoveries:		
Total recoveries	56	60
Sub-total	**56**	**60**
Net (impairments) and recoveries	**20**	**(71)**

Net (impairments) and recoveries

Net recoveries for the twelve months ended December 31, 2014, totaled EUR 20 million (twelve months ended December 31, 2013: EUR 71 million net impairments).

For the twelve months ended December 31, 2014, Aegon recognized EUR 56 million (twelve months ended December 31, 2013: EUR 60 million) in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

Past due and impaired assets

The tables that follow provide information on past due and individually impaired financial assets for the whole Aegon Group. An asset is past due when a counterparty has failed to make a payment when contractually due. Assets are impaired when an impairment loss has been charged to the income statement relating to this asset. After the impairment loss is reversed in subsequent periods, the asset is no longer considered to be impaired. When the terms and conditions of financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

Aegon s policy is to pursue realization of the collateral in an orderly manner as and when liquidity permits. Aegon generally does not use the non-cash collateral for its own operations.

	2014				2013			
Past due but not impaired assets	0-6 months	6-12 months	> 1 year	**Total**	0-6 months	6-12 months	> 1 year	Total
Debt securities - carried at fair value	10	53	14	77	50	37	14	101
Mortgage loans	51	4	6	61	49	7	5	60
Other loans	38	-	1	40	70	-	4	74
Accrued interest	-	3	1	4	-	-	1	1
At December 31	**99**	**60**	**23**	**182**	**169**	**43**	**24**	**236**

Impaired financial assets	**Carrying amount 2014**	Carrying amount 2013
Shares	132	203
Debt securities - carried at fair value	1,470	1,390
Mortgage loans	670	728
Private Loans	7	11
Other loans	4	4
Other financial assets - carried at fair value	8	16
At December 31	**2,291**	**2,352**

Equity instruments classified as available-for-sale

Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined within Aegon as an unrealized loss position for more than six months or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

These factors typically require significant management judgment. The impairment review process has resulted in EUR 3 million of impairment charges for the twelve months ended December 31, 2014 (twelve months ended December 31, 2013: EUR 3 million) for Aegon Americas, Aegon the Netherlands and Aegon UK.

As of December 31, 2014, there are EUR 180 million of gross unrealized gains and EUR 12 million of gross unrealized losses in the equity portfolio of Aegon (December 31, 2013: EUR 309 million of gross unrealized gains and EUR 11 million of gross unrealized losses). There are no securities held by Aegon with an unrealized loss above EUR 5 million. The table below represents the unrealized gains and losses on share positions held by Aegon Americas, Aegon the Netherlands and Aegon UK.

	Cost basis	Carrying value	Net unrealized gains / (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
December 31, 2014							
Shares	444	610	166	538	177	72	(11)
December 31, 2013							
Shares	477	775	298	689	309	86	(11)

The composition of shares by industry sector in an unrealized loss position held by Aegon Americas, Aegon the Netherlands and Aegon UK at December 31, 2014, and December 31, 2013 is presented in the table below.

	2014		2013	
Unrealized losses on shares	**Carrying value of instruments with unrealized losses**	**Gross unrealized losses**	Carrying value of instruments with unrealized losses	Gross unrealized losses
Consumer	12	-	10	-
Financials	54	(11)	60	(11)
Funds	5	(1)	8	-
Other	-	-	8	-
Total	**72**	**(11)**	**86**	**(11)**

Impairment losses on shares

The table below provides the length of time the shares held by Aegon Americas, Aegon the Netherlands and Aegon UK were below cost prior to their impairment in 2014 and 2013.

In million EUR	0-6 months
2014	
Shares	(2)
2013	
Shares	(2)

Equity market risk and other investments risk

Fluctuations in the equity, real estate and capital markets have affected Aegon s profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where Aegon bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for policyholders where funds are invested in equities, backing variable annuities, unit-linked products and mutual funds. Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee earned by Aegon on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees.

The general account equity, real estate and other non-fixed-income portfolio of Aegon is as follows:

Equity, real estate and non-fixed income exposure	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	**Total 2014**
Equity funds	141	518	-	15	-	674
Common shares [1)]	272	7	193	13	105	591
Preferred shares	254	-	-	2	-	256
Investments in real estate	721	1,069	-	2	-	1,792
Hedge funds	786	1	-	-	-	787
Other alternative investments	1,408	-	-	-	-	1,408
Other financial assets	645	-	134	8	-	786
At December 31	**4,227**	**1,596**	**327**	**39**	**105**	**6,295**

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

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Equity, real estate and non-fixed income exposure	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total 2013
Equity funds	1,001	729	-	17	-	1,747
Common shares [1)]	266	11	55	28	36	395
Preferred shares	214	-	-	-	-	214
Investments in real estate	721	810	-	1	-	1,532
Hedge funds	603	1	-	-	-	604
Other alternative investments	1,363	-	-	-	-	1,363
Other financial assets	633	-	4	26	-	663
At December 31	**4,801**	**1,550**	**58**	**72**	**36**	**6,517**

[1] Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR 2 million.

Market risk concentrations shares	Americas	The Netherlands	United Kingdom	New Markets	Total 2014 [1)]	Of which impaired assets
Communication	40	1	-	-	43	-
Consumer	16	2	-	-	30	2
Financials	545	5	-	2	578	1
Funds	-	146	193	22	408	124
	24	1	-	1	36	-

Industries						
Other	11	6	-	2	29	5
At December 31	**636**	**161**	**193**	**28**	**1,123**	**132**

1 Includes investments of Holding and other activities.

Market risk concentrations shares	Americas	The Netherlands	United Kingdom	New Markets	Total 2013 1)	Of which impaired assets
Communication	34	1	-	-	36	-
Consumer	15	3	-	-	29	2
Financials	1,373	1	1	-	1,390	33
Funds	-	429	54	40	523	161
Industries	20	3	-	2	30	-
Other	13	10	-	3	29	8
At December 31	1,456	447	55	45	2,036	203

1 Includes investments of Holding and other activities.

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

	2014	2013	2012	2011	2010
S&P 500	2,059	1,848	1,426	1,258	1,258
Nasdaq	4,736	4,177	3,020	2,605	2,653
FTSE 100	6,566	6,749	5,898	5,572	5,900
AEX	424	402	343	312	355

The sensitivity analysis of net income and shareholders equity to changes in equity prices is presented in the table below. The sensitivity of shareholders equity and net income to changes in equity markets reflects changes in the market value of Aegon s portfolio, changes in DPAC amortization, contributions to pension plans for Aegon s employees and the strengthening of the guaranteed minimum benefits, when applicable. The results of equity sensitivity tests are non-linear. The main reason for this is due to equity options sold to clients that are embedded in some of these products and that more severe scenarios could cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not. Aegon generally has positive income benefits from equity market increases and negative impacts from equity market declines as it earns fees on policyholder account balances and provides minimum guarantees for account values. Aegon added out-of-money options in its portfolio to provide additional protection for equity market declines.

Sensitivity analysis of net income and shareholders equity to equity markets Immediate change of	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
2014		
Equity increase 10%	107	244
Equity decrease 10%	(115)	(247)
Equity increase 20%	146	413
Equity decrease 20%	(209)	(474)
2013		
Equity increase 10%	186	344
Equity decrease 10%	(179)	(281)
Equity increase 20%	303	595
Equity decrease 20%	(318)	(548)

Liquidity risk

Liquidity risk is inherent in much of Aegon s business. Each asset purchased and liability incurred has its own liquidity characteristics. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. If Aegon requires significant amounts of cash on short notice in excess of normal cash requirements and existing credit facilities, it may have difficulty selling these investments at attractive prices or in a timely manner.

Aegon operates a Liquidity Risk Policy under which country units are obliged to maintain sufficient levels of highly liquid assets to meet cash demands by policyholders and account holders over the next two years. Potential cash demands are assessed under a stress scenario including spikes in disintermediation risk due to rising interest rates and concerns over Aegon s financial strength due to multiple downgrades of the Group s credit rating. At the same time, the liquidity of assets other than cash and government issues is assumed to be severely impaired for an extended period of time. All units and Aegon Group must maintain enough liquidity in order to meet all cash needs under this extreme scenario.

Aegon held EUR 35,604 million of general account investments in cash, money market products and sovereign bonds that are readily saleable or redeemable on demand (2013: EUR 28,134 million). The Group expects to meet its obligations, even in a stressed liquidity event, from operating cash flows and the proceeds of maturing assets as well as these highly liquid assets. Further, the Group has access to back-up credit facilities, as disclosed in note 39 Borrowings, amounting to EUR 4,404 million which were unused at the end of the reporting period (2013: EUR 3,451 million).

The maturity analysis below shows the remaining contractual maturities of each category of financial liabilities (including coupon interest). When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that can be required to be paid on demand without any delay are reported in the category On demand. If there is a notice period, it has been assumed that notice is given immediately and the repayment has been presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

To manage the liquidity risk arising from financial liabilities, Aegon holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. For this reason, Aegon believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

Maturity analysis gross undiscounted contractual cash flows

(for non-derivatives)	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
2014						
Trust pass-through securities	-	8	34	42	160	244
Subordinated loans	-	28	112	140	1,134	1,414
Borrowings	-	3,684	6,472	1,884	3,527	15,568
Investment contracts [1)]	8,795	2,171	2,516	1,320	1,058	15,861
Investment contracts for account of policyholders [1)]	29,911	3,427	-	-	114	33,453
Other financial liabilities	10,407	3,935	162	5	24	14,532
2013						
Trust pass-through securities	-	8	32	40	168	248
Subordinated loans	-	-	-	-	396	396
Borrowings	-	1,040	8,661	818	3,218	13,737
Investment contracts [1)]	8,624	1,358	2,017	821	885	13,705
Investment contracts for account of policyholders [1)]	24,770	3,420	-	-	31	28,221
	9,043	2,253	506	575	67	12,443

Other financial liabilities

[1] Excluding investment contracts with discretionary participating features.

Aegon s liquidity management is based on expected claims and benefit payments rather than on the contractual maturities. The projected cash benefit payments in the table below are based on management s best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions based on Aegon s historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

Financial liabilities relating to insurance and investment contracts [1)]	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
2014						
Insurance contracts	-	4,962	20,261	21,348	117,892	164,463
Insurance contracts for account of policyholders	-	6,580	27,434	26,771	85,482	146,267
Investment contracts	-	2,367	6,581	4,154	4,756	17,858
Investment contracts for account of policyholders	289	9,948	27,591	25,372	72,461	135,661
2013						
Insurance contracts	-	6,970	25,793	25,402	135,672	193,838
Insurance contracts for account of policyholders	-	5,611	24,303	22,495	71,801	124,210
Investment contracts	-	2,753	5,807	2,419	6,020	16,999
Investment contracts for account of policyholders	100	8,095	22,659	22,169	61,272	114,295

1

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

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The following table details the Group s liquidity analysis for its derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

Maturity analysis relating to derivatives [1)] (Contractual cash flows) 2014	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Gross settled						
Cash inflows	-	17,004	10,957	20,187	45,628	93,777
Cash outflows	-	(16,832)	(11,270)	(20,123)	(41,463)	(89,689)
Net settled						
Cash inflows	-	149	922	1,671	4,455	7,196
Cash outflows	-	(85)	(510)	(879)	(4,079)	(5,552)

1 Derivatives includes all financial derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

Maturity analysis relating to derivatives [1)] (Contractual cash flows) 2013	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Gross settled						
Cash inflows	-	12,653	18,622	27,077	55,301	113,652
Cash outflows	-	(12,505)	(18,014)	(26,708)	(53,826)	(111,054)

Net settled

Cash inflows	-	384	1,563	3,162	5,713	10,822
Cash outflows	-	(323)	(1,164)	(2,970)	(5,323)	(9,781)

[1] Derivatives includes all financial derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

5 Segment information

For segment reporting purposes the following non-IFRS financial measures are included: underlying earnings before tax, income tax and income before tax. These non-IFRS measures are calculated by consolidating on a proportionate basis Aegon s joint ventures and associated companies. Aegon believes that its non-IFRS measures provide meaningful information about the underlying results of Aegon s business, including insight into the financial measures that Aegon s senior management uses in managing the business.

Among other things, Aegon s senior management is compensated based in part on Aegon s results against targets using the non-IFRS measures presented here. While many other insurers in Aegon s peer group present substantially similar non-IFRS measures, the non-IFRS measures presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards. Readers are cautioned to consider carefully the different ways in which Aegon and its peers present similar information before comparing them.

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

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

Underlying earnings

Underlying earnings reflects Aegon s profit from underlying business operations and excludes components that relate to accounting mismatches that are dependent on market volatility or relate to events that are considered outside the normal course of business. Below the items that are excluded from underlying earnings are described.

Fair value items

Fair value items include the over- or underperformance of investments and guarantees held at fair value for which the expected long-term return is included in underlying earnings. Changes to these long-term return assumptions are also included in the fair value items.

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

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

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

The fair value movements of certain guarantees and the fair value change of derivatives that hedge certain risks on these guarantees of Aegon the Netherlands and Variable Annuities Europe (included in New Markets) are excluded from underlying earnings, and the long-term expected return for these guarantees is set at zero.

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

Realized gains or losses on investments

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

Impairment charges/reversals

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

Other income or charges

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

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

Run-off businesses

Includes underlying results of business units where management has decided to exit the market and to run off the existing block of business. Aegon believes that excluding the earnings of these blocks of businesses from underlying earnings enhances the comparability from period to period of Aegon s key earnings measure, underlying earnings. This line includes the run-off of the institutional spread-based business, structured settlements blocks of business, bank-owned and corporate-owned life insurance (BOLI/COLI) business and the life reinsurance business in Aegon Americas. Aegon has other blocks of business for which sales have been discontinued and of which the earnings are included in underlying earnings.

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Share in earnings of joint ventures and associates

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

Income statement - Underlying earnings 2014	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina-tions	**Segment total**	Joint ventures and associates eliminations	**Consoli-dated**
Underlying earnings before tax	1,134	558	115	196	(139)	1	**1,865**	(9)	**1,856**
Fair value items	(497)	(766)	(15)	(6)	(82)	-	(1,366)	2	(1,364)
Realized gains / (losses) on investments	85	431	164	16	-	-	697	(3)	694
Impairment charges	(38)	(19)	-	(43)	-	-	(100)	(23)	(123)
Impairment reversals	58	7	-	-	-	-	66	-	66
Other income / (charges)	(52)	(113)	(49)	(24)	(3)	-	(240)	22	(218)
Run-off businesses	(21)	-	-	-	-	-	(21)	-	(21)
	669	99	215	139	(223)	1	900	(10)	889

Income / (loss) before tax									
Income tax (expense) / benefit	(79)	(37)	(37)	(50)	60	-	(143)	10	(132)
Net income / (loss)	**590**	**62**	**178**	**89**	**(164)**	**1**	**757**	**-**	**757**
Inter-segment underlying earnings	(173)	(58)	(59)	272	18				
Revenues									
2014									
Life insurance gross premiums	6,461	3,982	4,859	2,015	-	(70)	17,246	(351)	16,896
Accident and health insurance	1,874	233	56	163	6	(6)	2,326	(11)	2,316
General insurance	-	501	-	224	-	-	725	(72)	653
Total gross premiums	**8,334**	**4,716**	**4,916**	**2,402**	**6**	**(76)**	**20,298**	**(433)**	**19,864**
Investment income	3,312	2,568	2,073	234	326	(323)	8,191	(42)	8,148
Fee and commission income	1,485	324	43	623	-	(237)	2,237	(100)	2,137
Other revenues	2	-	-	3	5	-	10	(3)	7
Total revenues	**13,134**	**7,608**	**7,032**	**3,262**	**336**	**(637)**	**30,735**	**(578)**	**30,157**
Inter-segment revenues	16	-	-	292	327				

Income statement - Underlying earnings 2013	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina- tions	Segment total	Joint ventures and associates eliminations	Consoli- dated
Underlying earnings before tax	**1,314**	**454**	**87**	**227**	**(109)**	**(3)**	**1,968**	**(50)**	**1,918**
Fair value items	(980)	(41)	(16)	(21)	(61)	-	(1,118)	37	(1,082)
Realized gains / (losses) on investments	110	342	48	-	-	-	500	-	500
Impairment charges	(111)	(40)	(31)	(16)	-	-	(198)	-	(198)
Impairment reversals	67	8	-	-	-	-	75	-	75
Other income / (charges)	72	(36)	(45)	(33)	(11)	-	(52)	6	(47)
Run-off businesses	21	-	-	-	-	-	21	-	21
Income / (loss) before tax	**493**	**687**	**43**	**158**	**(181)**	**(3)**	**1,197**	**(8)**	**1,189**
Income tax (expense) / benefit	(86)	(166)	33	(31)	42	-	(208)	8	(200)

Net income / (loss)	**407**	**521**	**76**	**127**	**(139)**	**(3)**	**989**	**-**	**989**
Inter-segment underlying earnings	(173)	(54)	(59)	257	29				
Revenues 2013									
Life insurance gross premiums	6,187	3,515	6,537	1,349	14	(73)	17,529	(416)	17,112
Accident and health insurance	1,787	243	-	170	8	(8)	2,200	(10)	2,190
General insurance	-	487	-	194	-	-	681	(44)	637
Total gross premiums	**7,975**	**4,245**	**6,537**	**1,713**	**22**	**(82)**	**20,410**	**(471)**	**19,939**
Investment income	3,370	2,310	2,054	233	336	(336)	7,968	(58)	7,909
Fee and commission income	1,273	328	80	583	-	(238)	2,026	(76)	1,950
Other revenues	4	-	-	2	4	-	10	(3)	6
Total revenues	**12,622**	**6,883**	**8,670**	**2,531**	**362**	**(656)**	**30,413**	**(608)**	**29,805**
Inter-segment revenues	20	1	1	292	342				

Income statement - Underlying earnings 2012	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina-tions	Segment total	Joint ventures and associates eliminations	Consoli-dated
Underlying earnings before tax	1,294	556	90	266	(220)	(4)	1,982	(71)	1,911

Fair value items	(67)	47	(31)	(1)	(4)	-	(56)	45	(11)
Realized gains / (losses) on investments	186	138	84	10	-	-	418	3	421
Impairment charges	(181)	(37)	-	(26)	(4)	2	(246)	9	(237)
Impairment reversals	64	8	-	-	-	(2)	70	-	70
Other income / (charges)	(28)	(279)	34	113	(2)	-	(162)	(1)	(163)
Run-off businesses	14	-	-	-	-	-	14	-	14
Income / (loss) before tax	**1,282**	**433**	**177**	**362**	**(230)**	**(4)**	**2,020**	**(15)**	**2,005**
Income tax (expense) / benefit	(251)	(46)	(42)	(119)	71	-	(387)	15	(372)
Net income / (loss)	**1,031**	**387**	**135**	**243**	**(159)**	**(4)**	**1,633**	**-**	**1,633**
Inter-segment underlying earnings	(191)	(60)	(62)	286	27				
Revenues 2012									
Life insurance gross premiums	6,541	3,004	6,047	1,374	-	(73)	16,893	(693)	16,200
Accident and health insurance	1,833	220	-	188	5	(5)	2,241	(11)	2,230
General insurance	-	475	-	144	-	-	619	-	619
Total gross premiums	**8,374**	**3,699**	**6,047**	**1,706**	**5**	**(78)**	**19,753**	**(704)**	**19,049**
Investment income	3,654	2,273	2,337	319	374	(374)	8,583	(170)	8,413
	1,177	329	133	524	-	(263)	1,900	(44)	1,856

Fee and commission income									
Other revenues	5	-	-	3	5	-	13	(4)	9
Total revenues	**13,210**	**6,301**	**8,517**	**2,552**	**384**	**(715)**	**30,249**	**(922)**	**29,327**
Inter-segment revenues	31	2	1	310	371				

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

	Note	2014	2013	2012
Underlying earnings before tax		**1,856**	**1,918**	**1,911**
Fair value items		(575)	(1,110)	101
Realized gains and (losses) on financial investments	10	697	500	552
Gains and (losses) on investments in real estate	10	(4)	(49)	(9)
Fair value changes on economic hedges for which no hedge accounting is applied	10	(799)	65	(130)
Ineffective portion of hedge transactions for which hedge accounting is applied	10	43	12	10
Realized gains and (losses) on repurchased debt	10	3	-	7
DPAC / VOBA offset [1)]	14	(26)	(22)	(119)
Impairment (charges)/reversals	15	(79)	(296)	(173)
Other income / (charges)	11, 12, 14, 17	(205)	149	(160)
Run-off businesses		(21)	21	15
Income before tax		**889**	**1,189**	**2,005**

1 Including a fair value adjustment of EUR 28 million (2013: EUR 1 million; 2012: EUR 9 million).

Other selected income statement items	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total
2014						
Amortization of deferred expenses, VOBA and future servicing rights	571	53	216	94	1	936
Depreciation	28	21	17	12	-	78
Impairment charges / (reversals) on financial assets, excluding receivables	(11)	12	-	65	-	66
Impairment charges / (reversals) on non-financial assets and receivables	-	8	6	7	-	21
2013						
Amortization of deferred expenses, VOBA and future servicing rights	572	58	234	143	-	1,007
Depreciation	35	20	13	14	-	82
Impairment charges / (reversals) on financial assets, excluding receivables	48	32	31	17	-	127
Impairment charges / (reversals) on non-financial assets and receivables	(5)	1	-	169	2	167
2012						
Amortization of deferred expenses, VOBA and future servicing rights	720	77	244	109	-	1,150
Depreciation	31	23	10	12	11	87
Impairment charges / (reversals) on financial assets, excluding receivables	122	22	-	25	4	173
	4	8	-	14	-	26

Impairment charges / (reversals) on non-financial assets and receivables

Number of employees	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total
2014						
Number of employees - headcount	12,865	4,426	2,420	8,617	274	28,602
Of which agents	1,802	280	66	3,565	-	5,713
Of which Aegon s share of employees in joint ventures and associates	568	-	-	1,046	-	1,614
2013						
Number of employees - headcount	12,256	4,282	2,400	7,651	302	26,891
Of which agents	1,655	293	63	2,742	-	4,753
Of which Aegon s share of employees in joint ventures and associates	441	-	-	1,021	-	1,462
2012						
Number of employees - headcount	11,967	4,457	2,793	7,160	473	26,850
Of which agents	1,604	321	72	2,382	23	4,402
Of which Aegon s share of employees in joint ventures and	463	-	-	1,083	-	1,546

associates

Summarized assets and liabilities per segment 2014	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina- tions	Total
Assets							
VOBA and future servicing rights	1,361	42	375	22	-	-	1,801
Investments general account	83,519	51,463	13,208	4,806	224	(1)	153,219
Investments for account of policyholders	91,138	29,209	64,159	6,971	-	(10)	191,467
Investments in joint ventures	9	789	-	670	1	-	1,468
Investments in associates	91	19	24	6	-	-	140
Deferred expenses	7,113	114	2,443	699	5	-	10,373
Assets held for sale	9,532	-	-	349	-	-	9,881
Other assets	15,045	34,581	3,290	2,996	36,443	(36,238)	56,117
Total assets	**207,808**	**116,217**	**83,498**	**16,519**	**36,674**	**(36,249)**	**424,467**
Liabilities							
Insurance contracts general account	65,788	31,795	10,598	5,517	4	(1,776)	111,927

Insurance contracts for account of policyholders	64,139	28,569	6,804	2,739	-	-	102,250
Investment contracts general account	9,319	5,663	374	3	-	-	15,359
Investment contracts for account of policyholders	26,999	2,237	58,380	4,233	-	-	91,849
Liabilities held for sale	7,806	-	-	3	-	-	7,810
Other liabilities	16,079	43,208	2,470	1,777	8,877	(4,930)	67,480
Total liabilities	**190,130**	**111,472**	**78,625**	**14,271**	**8,881**	**(6,706)**	**396,674**

Summarized assets and liabilities per segment 2013	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina- tions	Total
Assets							
VOBA and future servicing rights	1,559	58	369	21	-	-	2,006
Investments general account	75,780	45,478	10,743	3,396	139	(2)	135,533
Investments for account of policyholders	75,224	25,646	57,813	6,357	-	(8)	165,032
Investments in joint ventures	-	819	-	607	-	-	1,426
Investments in associates	81	19	20	350	1	-	470
Deferred expenses	6,954	141	2,324	584	3	-	10,006
Other assets	14,065	16,837	2,387	2,332	29,962	(28,196)	37,387
Total assets	**173,663**	**88,997**	**73,656**	**13,647**	**30,105**	**(28,206)**	**351,860**
Liabilities							
Insurance contracts general account	62,645	26,685	9,858	3,910	3	(1,332)	101,769
	52,184	25,401	4,252	2,474	-	-	84,311

Insurance contracts for account of policyholders							
Investment contracts general account	9,536	4,542	466	1	-	-	14,545
Investment contracts for account of policyholders	23,040	1,650	54,036	3,883	-	-	82,608
Other liabilities	11,820	27,368	1,625	1,499	7,379	(3,784)	45,908
Total liabilities	**159,224**	**85,646**	**70,236**	**11,767**	**7,382**	**(5,116)**	**329,141**

Investments 2014	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina-tions	**Total**
Shares	636	161	193	28	105	(1)	1,122
Debt securities	63,130	23,250	12,670	4,274	-	-	103,324
Loans	9,187	26,618	-	487	11	-	36,303
Other financial assets	9,845	366	344	16	107	-	10,678
Investments in real estate	721	1,069	-	2	-	-	1,792
Investments general account	**83,519**	**51,463**	**13,208**	**4,806**	**224**	**(1)**	**153,219**
Shares	-	9,487	17,122	420	-	(10)	27,019
Debt securities	4,585	19,320	12,920	244	-	-	37,070
Unconsolidated investment funds	86,525	-	29,341	6,293	-	-	122,159
Other financial assets	28	401	3,674	13	-	-	4,117
	-	-	1,101	-	-	-	1,101

Investments in real estate							
Investments for account of policyholders	**91,138**	**29,209**	**64,159**	**6,971**	**-**	**(10)**	**191,467**
Investments on balance sheet	174,658	80,672	77,367	11,777	224	(11)	344,686
Off-balance sheet investments third parties	139,295	868	570	72,474	-	-	213,208
Total revenue-generating investments	**313,953**	**81,540**	**77,937**	**84,251**	**224**	**(11)**	**557,894**
Investments							
Available-for-sale	69,851	23,197	12,884	4,284	12	-	110,229
Loans	9,187	26,618	-	487	11	-	36,303
Financial assets at fair value through profit or loss	94,898	29,788	63,381	7,005	200	(11)	195,261
Investments in real estate	721	1,069	1,101	2	-	-	2,893
Total investments on balance sheet	**174,658**	**80,672**	**77,367**	**11,777**	**224**	**(11)**	**344,686**
Investments in joint ventures	9	789	-	670	1	-	1,468
Investments in associates	91	19	24	6	-	-	140
Other assets	33,050	34,737	6,108	4,067	36,448	(36,238)	78,172
Consolidated total assets	**207,808**	**116,217**	**83,498**	**16,519**	**36,674**	**(36,249)**	**424,467**

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Investments **2013**	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Elimina-tions	Total
Shares	1,456	447	55	45	36	(2)	2,036
Bonds	57,125	19,095	10,479	2,812	-	-	