Annual report 2014

Aegon Schadeverzekering N.V.

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Annual report 2014

Report of the Executive Board

General

Aegon Schadeverzekering N.V., incorporated and domiciled in the Netherlands, is a limited liability company organized under Dutch law. Aegon Schadeverzekering N.V. (hereafter Aegon Schadeverzekering) is a 100% subsidiary of Aegon Nederland N.V. in The Hague. The ultimate parent of the Aegon-group is Aegon N.V. in The Hague. Aegon Schadeverzekering is active in accident and health insurance, and general insurance.

Vision, strategy, objectives

The parent company of Aegon Schadeverzekering, Aegon Nederland, has summarized its objective and policy in a vision: “We believe we have a responsibility for people’s financial awareness and development. We offer understandable solutions in honest dialogue so that customers can make conscious decisions on their financial future”.

The strategy rests on four pillars: profitable growth, loyal customers, proud employees and an effective business. Aegon Nederland wants to grow by reinforcing its distribution strengths, innovation and optimum use of capital. Aegon Nederland wants to create loyal customers by exceeding their expectations, working on retaining customers and restoring trust. Having proud employees is a significant objective for Aegon Nederland. Developing employees and people-focused leadership will contribute to achieving this objective. By structuring the organization in a customer-focused way and aiming for better service at lower cost, Aegon Nederland creates an environment that helps employees and suppliers to provide good service to customers.

Recalibrating the strategy
In 2008, Aegon Nederland introduced the Aegon Fan Strategy, which places customers at the heart of its strategy. A key goal of this strategy was to remodel the organization in line with customer processes. In the first quarter of 2012, Aegon Nederland implemented an organizational transformation which included a substantial restructuring. Key goals of this transformation were to reduce costs and, even more important, to create an organization which is able to fully (and more quickly) adopt the Aegon Fan Strategy. The remainder of 2012 and early 2013 were used to rethink the core elements of Aegon’s business model. As a result, management established that Aegon’s strategy should be recalibrated, based on the most recent (external) developments and (internal) insights. This recalibration process was executed during the second and third quarter of 2013. In 2014 key elements of that strategy were implemented.

The vision of Aegon still has customers at its heart: “We exist to help people take responsibility for their financial future”.

By providing clear information and understandable products and services, Aegon Nederland empowers people to make better financial decisions. Aegon Nederland has shown that it can adapt to a new environment by transforming our risk profile, maintaining our strong capital base and reducing costs. Aegon Nederland is well prepared to meet the rapidly changing demands of aging populations and an increasingly affluent developing world.

To fulfill this mission, the focus is on the domains that matter most for the financial future of customers: Income (*Inkomen*) and Housing (*Wonen*). Within these domains, Aegon aims to offer comprehensive value propositions that fulfill our customers’ needs at every stage of their life. These value propositions will combine products and services across different business lines. Data and digital technology will play a fundamental role to ensure customer needs are translated in the right products and services at the right time.

Course of events during the financial year

<u>Changes in the legal structure</u>

On May 7, 2014 HerstelVerzekerd B.V., (a 20% subsidiary of Aegon Schadeverzekering N.V.), dissolved and ceased to exist.

On December 20, 2014, Aegon Schade Beleggingen B.V. and Heideland Beheer B.V, ceased to exist as a consequence of a merger with holding company Aegon Schadeverzekering N.V.

Implementation of recalibrated strategy

Focus for Aegon Nederland is on value propositions around ‘Income’ (Inkomen) and ‘Housing’ (Wonen) , enabling clear choices and better response to customers’ needs across their different stages in life. This means building our brand, developing and packaging products and services cross- product lines and cross- channel.

Reorganization of marketing, product management, strategy, online into one department
In order to ensure more customer centricity across product lines and channels, marketing and product management teams were centralized into one commercial department that works across business lines. Within this department, the strategy and ‘online’ now play a pivotal role to ensure cross-channel/ cross-product thinking. Also the customer intelligence team has been upgraded with more analysis capacity to ensure the right data is utilized better. A separate department of ‘Customer Focus’ ensures Aegon translates customer needs in everything it does, as an independent challenge institution.

Key principles for brand positioning and distribution across channels identified
Brand positioning: As interaction with consumers (including pension participants) becomes more important, Aegon Nederland is building a recognizable and differentiating Aegon brand across all touch points. As such we have defined a clearer brand promise with a clear link to our purpose, which will be the foundation of all customer interactions going forward. For instance, Aegon.nl has been upgraded with this new brand position and customer needs as basis.
Simultaneously, the distribution is cross-channel. Customers choose the channel through which they want to do business with Aegon. Hence, any channel conflict should be diminished so that our channels reinforce one another to increase value for customers. In order to ensure this, a set of common distribution principles has been established.

Maximize simplification through product and portfolio rationalization
Maximizing simplification is crucial to be able to serve customers in an efficient and transparent way. Rationalizing our product portfolios, administrative processes, service delivery and communication is essential for ultimately improving our performance. As such, a fundamental rationalization is key to being able to offer customers the value and quality they demand. In 2014 we have continued to rationalize our product portfolio.

Listening to customers
Aegon Nederland as a customer driven company is a learning organization. Aegon Nederland aims to improve its services every day based on input from employees and customers. For both programs are managed to collect input for structural improvement. Aegon Nederland also asks customers to give feedback and a ‘net promoter score’ based on the experience of their last contact with Aegon Nederland.

Innovation and new initiatives

Aegon Schadeverzekering continues to invest in innovations in customer interaction and distribution. We want to get to know our customers better by using new technology, through which contacts are generated more often, earlier and at appropriate times. We also want to become a genuinely customer-oriented company with the associated conduct, communications and propositions which will allow Aegon Schadeverzekering to differentiate itself from its competitors.

CRM system implementation (Salesforce)
Aegon Schadeverzekering wants to get to know existing and potential customers better and assist them as one Aegon with the sometimes complicated choices and changes they face during their lives. These changes are artificially reconstructed through the eyes of the imaginary ‘Douma family’.

All relevant information about individual customers is available in the CRM system ‘Salesforce’. Services are developed on events and changes that affect our customers, such as moving house, death or an insurance claim, with the purpose to help them out in a single smooth process. To a large extent, rollout is based on services. This means providing a better and more proactive service based on a 24-hour target. In 2014 Salesforce has become available to all customer-facing employees.

Alliance with eyeOpen and Onna Onna

eyeOpen is one of the first online mortgage advisers and has been an autonomous subsidiary of Aegon Nederland since the second quarter of 2013. eyeOpen helps consumers to make financial choices and offers online mortgage advice. This independent advice can save consumers a lot of time and money.

Onna Onna is an online insurer that targets women in its marketing. Onna Onna provides Aegon Nederland with knowledge on digital interaction, process efficiency and targeted marketing.

Regulation on the financial sector oath or promise

Since January 1, 2013 executives in the Dutch financial industry are obliged to take an oath. This obligation was introduced by the Regulation on the financial sector oath or promise (*Regeling eed of belofte financiële sector*) which applies *inter alia* to banks, insurers and financial service providers, therefore including Aegon Nederland and a number of its subsidiaries.

The regulation stipulates that the oath or promise is taken by policymakers and members of supervisory bodies of the entities to which it applies. All members of the executive and supervisory boards of the Aegon Nederland entities to which the regulation applies took the oath or promise.

Gender diversity (article 2:166 Dutch Civil Code)

The Executive Board of Aegon Schadeverzekering consists of a limited number of members. As a result, the balanced gender diversity is not easy to achieve and has not been achieved in 2014. Moreover, selection and appointment of members of the Executive Board is based on expertise, skills and relevant experience. The Executive Board does consider gender diversity in view of the aim of balanced Executive Board composition.

Aegon Schadeverzekering during 2014

In 2014 the main objective was again to improve the profitability of the Object, Income and Proxy portfolios. In the Proxy portfolio Aegon executed several improvement plans and terminated some long running relationships. The overall adverse trend in claim ratio's in the non-life market, largely due to the economic situation, continued in 2014. There was continued focus on claims management, fraud and prevention. Non-life markets have been saturated for some time with still too many suppliers on the object side which leads to price and margin pressure on 'simple' products like car and household insurance. The online channel for consumer object insurance is still increasing. At the same time we noticed market wide a remarkable movement from regular underwriting to proxy providers. Aegon introduced a new model for the Income market called 'de Gezonde Aanpak' ('the healthy approach'). This means an integrated vision and approach towards more claims prevention and better claims management. Major products were also redesigned to better meet the customer demands on the one hand and profitability on the other. In the consumer and Income market Aegon invested in improving the digital process and straight through processing. In the Proxy market, the results of the profitability measures are taking some time to materialize. In the Income market Aegon introduced this new model on the individual AOV portfolio with a positive result. Aegon increased prices in the income market which resulted in a higher number of cancelled contracts but the total portfolio only slightly decreased. Especially in the WGA/ERD market most corporate companies went to the UWV due to extreme lower premium levels. Finally, cost efficiency and the optimization of the chain from customer to provider are important in the non-life market and will become more important in the coming years.

Pending litigation portfolio and product issues

There is no pending litigation.

Collective Labor Agreement

The process for drawing up a new collective labor agreement, involving the works council and trade unions, took place in 2013 and was completed in January 2014. This agreement runs from January 1, 2014 to July 1, 2015. There were no other new developments since.

New Pension scheme for (former) employees

In 2014 the new Pension scheme was determined: due to changes in legislation the pension accrual changed and a cap of € 100.000 was introduced. Also the indexation policy changed from an unconditional, wage-based indexation to a conditional indexation based on the price index.

New independent auditor

Aegon Schadeverzekering has changed its independent auditor in 2014. Following a competitive tendering process that Aegon conducted in accordance with its corporate governance principles, the General Meeting of Shareholders appointed PricewaterhouseCoopers Accountants N.V. as the company's independent auditor for the financial statements for 2014 to 2016.

Corporate Governance – the Insurers' Code

Application of the Governance Principles

Aegon subscribes to the importance of the Governance Principles and applies it to its activities. Any departures by Aegon from the Principles are explained below (principle 1.1). The Governance Principles are available on the website of the Dutch Association of Insurers through the following link:
https://www.verzekeraars.nl/overhetverbond/zelfregulering/Paginas/Gedragscodes/Governance-Principes.aspx

Accountability

Aegon Nederland presents an account of the application of the Principles in its annual report and on its website. This is on behalf of the insurance companies: Aegon Levensverzekering N.V., Aegon Schadeverzekering N.V., Aegon Spaarkas N.V. and Optas Pensioenen N.V. The accountability report also forms part of the insurance companies' annual reports. References below to 'Aegon' are to Aegon Nederland and the insurance companies listed above (principle 1.2).

Supervisory Board

Membership and expertise
The majority of the members of Aegon's Supervisory Board is formally independent and operates independently in accordance with the Principles and the requirements of DNB's Suitability Policy Rule 2012 (*Beleidsregel geschiktheid 2012*). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broadly-based membership. In Aegon's view, the knowledge and experience also complement each other. Aegon has set out the Supervisory Board's duties in detail in the Supervisory Board Charter. Aegon has an up-to-date profile of the Supervisory Board, further specifying and recording its vision on the membership. The profile is tailored to Aegon's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards (principle 2.1.1).

The Supervisory Board has five members. Aegon and the Supervisory Board believe this number is appropriate to the nature, size and complexity of Aegon and the insurers in the group. Aegon and the Supervisory Board also believe that the size and membership of the committees, such as the Risk & Audit Committee, is appropriate (principle 2.1.2).

The members have broadly-based social and commercial backgrounds and experience. As a member of Aegon's Supervisory Board and through other supervisory directorships, they have thorough knowledge of the societal role and function of insurance companies and their stakeholders. In decision-making and supervision, the Supervisory Board balances the interests of all stakeholders affected (including those of customers, distribution partners and employees) and where relevant this is recorded in the minutes and this element is part of the self-evaluation by the Supervisory Board (principle 2.1.3).

Aegon complies with principles 2.1.4 and 2.1.5. Compliance with principle 2.1.4 is ensured in part by the use of the Supervisory Board profile and if a vacancy arises by drawing up an individual profile. In addition, Aegon performs an annual check of individual critical abilities against the DNB's Suitability Matrix for Supervisory Boards, regular self-evaluations and a permanent education program. If a vacancy arises for the position of chairman, an individual profile is drawn up which focuses on the Supervisory Board's and Aegon's requirements on expertise and experience in relation to the financial sector, familiarity with socio-economic and political culture and the social environments of Aegon's main markets (principles 2.1.4 and 2.1.5).

Experience shows that all members of the Supervisory Board are sufficiently available and contactable to perform their duties properly. The importance of this principle is underlined in the profile, the Rules of the Supervisory Board and the Aegon Nederland Governance Guide. Compliance with it is also checked in the regular self-evaluations (principles 2.1.6).

The members of the Supervisory Board receive suitable compensation that is not dependent on Aegon's results. The compensation is set by the general meeting (principle 2.1.7).

Aegon has a permanent education program for members of the Supervisory Board and the Executive Board (see below). This program covers national and international developments in the financial sector and corporate governance in general and in the financial sector in particular, the duty of care towards customers and putting customers' interests first, integrity, risk management, financial reporting and audit.

In 2013, 2014 and 2015 the permanent education program focused and will focus amongst others on the following subjects: (i) ethics, 'moresprudentie' (combination of moral standards and prudency), moral courage and customer interest; (ii) cybersecurity; (iii) managing values, behavior and culture in the insurance sector (iv) integrated risk management in the insurance industry, including simulation (v) scenario analysis workshop insurance (vi) workshop governance, managerial dilemmas and boardroom dynamics; (vii) deepening financial frameworks and trends in supervision (viii) deepening financial reporting insurance. In 2014 and 2015 there was and will be special attention for Solvency II through several e-learning modules and insurance products and the processing in IFRS and Solvency terms. Members of the Supervisory Board participated and will participate in the whole program or the parts relevant to them (principle 2.1.8).

The Supervisory Board assesses the effectiveness of the permanent education program each year. In 2014, the Supervisory Board evaluated its own functioning under independent supervision. The results were satisfactory and discussed by the Supervisory Board and with the Executive Board and actions were taken where necessary (principles 2.1.9 and 2.1.10).

Duties and working methods

The Supervisory Board's discussions of risk management decisions are prepared by the Risk & Audit Committee. The Risk & Audit Committee Charter has been updated in 2014, paying extensive attention to its risk management duties and responsibilities (principle 2.1.2).

The members of the Aegon Risk & Audit Committee have adequate knowledge, experience and/or competences to allow sound supervision of financial aspects of risk management, financial reporting, internal control and audit (principle 2.2.2).

<u>Executive Board</u>

Membership

At Aegon, complementarity and diversity within the Executive Board is ensured by the members' different backgrounds, personalities and range of knowledge and experience. The members of the Executive Board have equal decision-making authority while the Executive Board aims as far as possible to take decisions by consensus. An updated profile for the Executive Board has been drawn in 2014 up to underline the importance that Aegon attaches to a proper composition of the Executive Board (principle 3.1.1).

The members of the Executive Board have a broadly-based commercial background and experience of the financial sector and insurance in particular. With this wide experience they have sufficient knowledge of the function of insurance companies and know the interests of stakeholders. Each member of the Executive Board also has the thorough knowledge necessary to be able to assess and determine the main points of Aegon's overall policy and to form a balanced and independent opinion on the risks that Aegon runs (principle 3.1.2).

The knowledge of the members of the Executive Board is kept up to standard and improved by Aegon's permanent education program managed by the Secretary working with the HR Learning & Development department, which also records participation. The program covers the subjects listed in the Principles and focused in 2014 and will focus in 2015 on global leadership, business model meetings, strategy development sessions and culture change/competence development. In 2014 and 2015 there was and will be special attention for Solvency II through several e-learning modules and insurance products and the processing in IFRS and Solvency terms. Aegon Nederland also encourages other employees to follow useful training courses (principle 3.1.3).

All the members of the Executive Board took part in (relevant parts of) the program referred to in principle 3.1.3 and they also followed relevant additional courses. In 2014, the Supervisory Board evaluated the Executive Board, and this included looking at expertise. The evaluation noted that the Executive Board was functioning well and that the members were sufficiently expert (principle 3.1.4).

All Aegon insurance companies present an account of their application of the Principles in their annual reports, including implementation of principles 3.1.3 and 3.1.4 as detailed above (principle 3.1.5).

The Executive Board takes Aegon's risk appetite into account in its decisions. The Executive Board considers whether the decision to be taken is or is not within the risk appetite thus ensuring a careful balance between its commercial objectives and interests and the risks involved (principle 3.1.6).

The CFO prepares the discussion of risk management decisions and the Chief Risk Officer ('CRO') has a significant supportive role in this. The CRO is not a member of the Executive Board but is the director of the risk management function (the Risk Management & Compliance department), which is organized as the second line (see the Risk Management paragraph below). In this capacity, the CRO is closely involved in all decisions with a material impact on Aegon's risk profile. The risk management function focuses on financial stability and the impact that systemic risks may have on Aegon's risk profile. The CRO reports hierarchically to the CFO and also has a direct reporting line to the chairman of the Supervisory Board (principle 3.1.7).

The CFO has no individual commercial responsibility and operates independently of other commercial areas (principle 3.1.8).

Duties and working methods
In its decision-making, Aegon's Executive Board carefully considers the interests of all parties involved, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Code of Conduct and the Insurers' Governance Principles (principle 3.2.1).

Putting customers and their interests first is at the heart of our vision, strategy and day-to-day activities. This is an integral part of all our thinking and operations at every level of the company. This means that employees with customer contacts are closely involved in this theme, there are training programs and it is part of the recruitment policy.

In Aegon's vision it has a responsibility for people's financial awareness and development. Aegon wants to offer easily-understood solutions in a genuine dialogue to enable customers to make conscious decisions on their financial future. Aegon wants to present matters as they are. Aegonbelieves it is their responsibility to assist customers and explain things in a simple way. There are detailed notes on this vision on the website (www.aegon.nl).

The customer really does come first in this strategy and, to this end; the Aegon Fan Strategy was developed in 2008. This strategy also aims to carefully balance the interests of customers, but also those of all Aegon stakeholders, including the employees. Aegon believes that attention to the interests of all stakeholders is in the customer's interest.

In respect of customers' interests, the strategy focuses on exceeding expectations and restoring trust. Last year and this year there has been and will be focus on the next areas: improvement of (i) written communication, (ii) knowledge of customer insights and needs by organizing more 'customer arenas' and 'customer contact surveys' and panels (in Aegon's own 'customer experience lab'), (iii) the quality of processes by making 'customer journey's, (iv) the level, response time and quality of our complaints processes, (v) Aegon as customer orientated organization by learning /using from customer feedback and input from colleagues and creating a 'customer' orientated culture and (vi) the quality of products/propositions by a strong Product Approval Process and a yearly review.

The members of the Executive Board act in a careful, expert and fair manner. They keep up to date with developments in legislation and regulations, partly through the permanent education program. In 2011 the members of the Executive Board signed the ethics statement required by the Principles. In 2013 they took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations (principle 3.2.3)

Integrity, care and putting customers' interests first are guiding principles for all Aegon employees. The wording of the declaration referred to in principle 3.2.3 has been interpreted in the Aegon Code of Conduct that covers all Aegon employees. The wording of the ethical statement and the Aegon Code of Conduct have been placed on:
http://www.aegon.nl/overaegon/maatschappij/gedragscode/
Since 2012, contracts of employment have included a specific reference to the Aegon Code of Conduct. By signing their contract of employment, employees confirm that they have read and accept the codes of conduct applying at Aegon and will comply with them and any future codes of conduct applicable at Aegon. Shortly after their appointment, all new recruits go through an e-learning module that uses questions and answers to introduce the Aegon Code of Conduct, the principles in it and the spirit in which it has been drawn up. (principle 3.2.4).

Risk management

The CEO has primary responsibility on the Executive Board for adopting, implementing and monitoring the overall risk policy. Our risk policy and its management complied with the principles in the Governance Principles in 2013. During 2014 the overall policy on risk appetite and risk tolerance was confirmed by the Executive Board and approved by the Supervisory Board. There was one adjustment of the risk appetite during the year: the proposed change was discussed in the R&AC and was approved by the Supervisory Board on August 11, 2014 (principle 4.1).

The Supervisory Board supervises the risk policy adopted by Aegon's Executive Board. The Supervisory Board assesses at a strategic level whether the capital allocation and liquidity requirement are generally in line with the risk appetite it has approved. The Supervisory Board is for this matter advised by the Risk & Audit Committee. The Supervisory Board's assessment shows that Aegon's commercial activities are in general appropriate in the context of the risk appetite it has approved (principle 4.2).

Aegon uses a 'three lines of defense' model. The first line is basically the business, and it has primary responsibility for managing all risks. The risk management function (the Risk Management & Compliance department) is organized as the second line, operates from an independent position and has a monitoring role. Aegon has organized the risk management function of the insurance companies centrally and independently at the level of Aegon Nederland. There are regular consultations with the CRO to ensure that as far as possible the Executive Board is aware of any material risks run by the insurance companies in good time so that they can be managed properly. The Executive Board takes any decisions that are of material significance for Aegon's risk profile, capital allocation or liquidity requirement (principle 4.3).

To best safeguard customers' interests, we do not put simply any product on the market. Every new and updated product undergoes the product approval process. This was set up in 2010 and has been in line with the Governance Principles since 2011. In this process, we carefully balance the risks in a product and test it against the duty of care to the customer, financial sustainability and suitability within Aegon's vision, strategy and objectives. A product is not put on the market until the approval process has been successfully completed. As well as the product approval process, Aegon uses a product assessment process for existing products. Existing products, selected using pre-defined risk indicators, also go through this process to best safeguard customers' interests.

Both processes determine whether a product meets Aegon's current standards, which incorporate statutory requirements, and consider whether it is cost efficient, useful, secure and understandable to the target group and fits Aegon's vision, strategy, core values and competences. Aegon adjusts the approval process where customers' interests or the Governance Principles require and this is a point of ongoing attention. At year end, Internal Audit Netherlands (the internal audit department) performs a risk analysis to determine whether an audit on the

Governance Principles is required within next year's audit plan. The risk analysis for 2014 showed an audit was not deemed necessary for that particular year (principle 4.5).

Audit

As explained above, Aegon is organized in accordance with the 'three lines of defense' model. Internal Audit Netherlands is organized as the third line and is primarily responsible for systematic checks on the management of risks associated with the activities of the Aegon insurance companies (principle 5.1).

Internal Audit Netherlands is an independent central department at the level of Aegon Nederland. The Internal Audit Netherlands Manual and the Aegon Nederland Governance Guide help ensure that the internal audit function meets the Governance Principles. The Manual states that auditors may not have any operational responsibilities in the first line of defense. It also states that the director of Internal Audit Netherlands reports to the CEO and has a reporting line to the chairman of the Supervisory Board's Risk & Audit Committee (principle 5.2).

Governance Principle 5.3 describes a number of duties for the internal audit function and these are incorporated in the Internal Audit Netherlands Manual. Internal Audit Netherlands again reported its findings to the Executive Board and the Risk & Audit Committee in 2014 (principle 5.3).

Internal Audit Netherlands has regular contact and consultations with the Supervisory Board's Risk & Audit Committee and the external auditor to discuss the risk analysis and its audit plan (principle 5.4).

As part of the engagement to audit the financial statements, the external auditor reports his findings on the quality and effectiveness of Aegon's system of governance, risk management and control procedures to the Executive Board and the Supervisory Board (principle 5.5).

Internal Audit Netherlands also engages in frequent contacts with DNB to discuss risk analyses, findings and audit plans (principle 5.6).

Remuneration policy

Basis
Aegon pursues a careful, sound and sustainable remuneration policy. As Aegon follows the Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid), this remuneration policy is in line with its requirements.

Aegon Nederland's remuneration policy covers the members of the Executive Board, senior management and other employees and meets applicable national and international regulations and the Governance Principles. The policy is in accordance with the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V. and has regard for developments in society.

The remuneration policy is in line with the Aegon Fan Strategy and Aegon's vision, core values and risk appetite. This means that the level of variable remuneration for employees are discussed by the Supervisory Board, the financial performance criteria that apply to variable remuneration are adjusted for the estimated risks and cost of capital, the variable remuneration components are in line with Aegon's long-term targets and variable remuneration is capped at 50% of fixed income for Board members and 10% for other senior management. The Supervisory Board has approved the remuneration policy for senior management and there is a policy on retention, exit and welcome packages. In anticipation of the Law on Remuneration Policies for Financial Institutions 2014 (Wet beloningsbeleid financiële ondernemingen 2014 – 'Wbfo' 2014), that is effective from 2015, the total variable remuneration of senior management (including Board members) does not exceed 20% of fixed income for the whole group.

Part of the variable remuneration paid to Identified Staff (members of the Executive Board, certain senior managers and a number of other employees) is deferred and part is paid in shares. The Supervisory Board is authorized, if Aegon Nederland's or the insurance companies' financial results and situation so require, to suspend or cancel all or part of the variable remuneration for all recipients (Executive Board, senior management). Here too, Aegon is following the Regulation on Sound Remuneration Policies (principle 6.1.1).

Governance
In accordance with Aegon Nederland's remuneration policy, the Supervisory Board has the following duties and responsibilities: (i) approval of the general principles of the remuneration policy, (ii) regular assessment of the general principles of the remuneration policy, (iii) responsibility for the remuneration policy of the Executive Board, (iv) review of the remuneration of Identified Staff, (v) instructing the Executive Board to implement the remuneration policy and (vi) instructing the Remuneration Steering Group and/or Internal Audit to assess the application of the policy and procedures in it (principle 6.2.1).

The remuneration policy and its implementation were discussed in meetings of the Supervisory Board on several occasions during 2014. The Supervisory Board also discussed the level of variable remuneration. No material changes were made to the remuneration policy during the year. The Supervisory Board approved the 2014 variable remuneration targets for Identified Staff within the framework set in the AGGRF. It also approved payment of the 2012 variable remuneration to Identified Staff, with due regard to the assessments required by the AGGRF. This remuneration was within Aegon's remuneration policy. No material retention, exit and welcome packages were granted at Aegon Nederland in 2014 (principle 6.2.2).

The total income of members of the Executive Board is regularly assessed against the figure for similar positions in financial companies in the Netherlands. When setting the remuneration policy for members of the Executive Board, the aim is for a level slightly below the median. The total income of members of the Executive Board is in reasonable proportion to the remuneration policy (principle 6.3.1).

In 2014 no dismissals in the Executive Board occurred. For 2014 Aegon Nederland complies with the principle on severance pay. (principle 6.3.2).

The 2014 variable remuneration targets for the Executive Board include financial targets related to the results of Aegon Nederland and Aegon Group. Variable remuneration for the Executive Board and other Identified Staff is paid 50% in cash and 50% in Aegon N.V. shares. In 2014, in accordance with Aegon Nederland's Remuneration policy, 40% of the 2013 variable remuneration was paid to members of the Executive Board immediately and the remaining 60% was conditional. The 60% will be paid in three equal installments over three years unless an ex-post risk assessment indicates that there is a reason for not moving to an unconditional grant. This is in line with the Regulation on Sound Remuneration Policies (principles 6.3.3 and 6.4.1).

There is a holding period of three years for shares granted to the CEO and of two years for the other members of the Executive Board.

For all groups of employees who are entitled to variable remuneration, Executive Board and senior management) appropriate limits are established for the variable remuneration in relation to the fixed salary. In 2014, none of the members of the board were entitled to a variable remuneration of more than 100% of the annual salary (principle 6.4.2).

The 2014 variable remuneration was based on performance on preset targets at the following three levels: (i) Aegon NV, (ii) Aegon NL and (iii) personal. The targets are a mix of financial and non-financial performance criteria which are as objective as possible (principle 6.4.3).

The financial criteria were adjusted for estimated risks and cost of capital when 2014 actual performance was assessed (principle 6.4.4).

Under the governance provisions in Aegon Nederland's remuneration policy, the Supervisory Board is authorized to reduce variable remuneration granted conditionally to members of the Executive Board and other Identified Staff ('malus clause') further to the results of an ex-post assessment. The malus clause on variable remuneration granted conditionally to members of the Executive Board and other Identified Staff was not applied in 2014 (principle 6.4.5).

The governance provisions in Aegon Nederland's remuneration policy state that the Supervisory Board is authorized to recover variable remuneration already paid to members of the Executive Board if it had been granted on the basis of inaccurate financial or other information ('claw back' clause). There was no claw back of variable remuneration from members of the Executive Board or other Identified Staff in 2014 (principle 6.4.6).

Compliance with legislation and regulations

Aegon has a process to ensure that it is aware of and implements new regulations in good time. The Executive Board and the Legal Affairs department execute this process as the first line. From the second line the Risk Management department, including Compliance, are involved in this process. A third line, Internal Audit has a control role. The process has been further formalized and set out in more detail in 2014 (principle 7).

Financial information

The profit after tax for 2014 was EUR 285 thousand, compared to a loss after tax of EUR 17 million in 2013. All measures implemented in the previous and current year have paid off, making most of Aegon Schadeverzekering business a more profitable.

The earnings of Aegon Schadeverzekering are still sensitive for large claim experiences, making it difficult to absorb extraordinary claims. Although Aegon Schadeverzekering had a profitable claim experience in the income segment (AOV and WIA) in 2014, this was largely offset by additional Fire claims, due to several large incidents in 2014.

Revenues

Total income increased by EUR 3 million, mainly caused by increased premium income due to repricing measures. Aegon Schadeverzekering implemented in 2014 several measures in order to improve efficiency (higher degree of self service by policyholders as well as agents) and profitability (increase of premium). These measures are on track, whilst the number of contract terminations resulting from these measures are less than expected. The portfolio via authorized agents became profitable in 2014, the measures implemented to improve the profitability of this segment paid off. During 2014, an investigation of the negative results of the proxy channel was conducted, resulting in terminating a number of unfavorable proxy contracts and renegotiating some other contracts. This ongoing process is expected to be finalized in 2015, fully realizing the benefit of improving the returns on this portfolio in 2015.

Results from financial transactions

This item consists of the realized gains on the sale of several debt securities which was EUR 15 million positive in 2014 (2013: EUR 6.5 million positive) and the ineffectiveness of Aegon Schadeverzekering's hedge accounting of -/- EUR 251 thousand (2013: -/- EUR 17 thousand).

Policyholder claims and benefits

Aegon Schadeverzekering's proactive approach to prevention related to Accident & Health insurance finally paid off in 2014, resulting in an all-time low number of new claims and increased number of revalidations. The implementation of "Gezonde aanpak" has been successfully launched in the market. Consequently, the policyholder claims and benefits are EUR 13 million lower than in 2013.

Commissions and expenses

The commissions and expenses were EUR 6 million lower than in 2013, mainly caused by a decreased recharge of overhead expenses and a decrease in commissions paid.

Solvency and financial position

Aegon Nederland manages the solvency of Aegon Schadeverzekering in the first place on basis of the requirements of the Wet financieel toezicht, with a surcharge of 50%. This more than meets the requirements of the supervisory authority and gives the entity a substantial surplus capital. The solvency ratio of Aegon Schadeverzekering in 2014 was 213% (2013: 184.5%). Furthermore we endeavor to meet the requirements of the relevant local Standard & Poor's solvency model for very strong capitalization. In both cases Aegon Schadeverzekering complied with these standards in 2014 and 2013.

Shareholders' equity at December 31, 2014 was EUR 280,6 million compared with EUR 245,9 million at year-end 2013. This increase is explained by the increased revaluation reserves of EUR 34 million.

The insurance activities of Aegon Nederland are subject to the European Solvency I directives as implemented in the Netherlands. Aegon Nederland's solvency ratio excluding banking activities was 215% on December 31, 2014 (2013: 239%). The solvency ratio declined during 2014, which was mainly caused by a refinement in fair value measurement methodology of mortgage loans. This refinement had no impact on equity or profit or loss. Aegon Nederland's insurance and banking subsidiaries held sufficient capital to meet the regulators' requirements during 2014 and 2013.

Mortgage valuation
In 2014, Aegon updated the fair value calculation of its Dutch mortgage loans based on additional market observable data. This resulted in an increase in the discount rate used to present value the future cash flows, mainly driven by an increase in the cost of funds. The carrying value, at amortized cost, of Dutch mortgage loans on Aegon's balance sheet has not been impacted by the update of the fair value calculation. The adjusted market valuation had a negative impact on the Solvency I ratio. We remain committed to the quality of our mortgage portfolio and emphasize our continuous positive outlook for this asset class.

Employees

Aegon Schadeverzekering itself does not have employees, but is serviced by Aegon Nederland. Related expenses are recharged.

Principal risks and uncertainties

For an insurer, risk management is an inseparable part of day-to-day operations. Aegon faces a wide range of risks. Some, such as changes in mortality and morbidity rates and lapse rates, are inherent to the insurance business. The greatest risks, however, come from movements in the financial markets (such as interest risk, credit risks and equity market risk). These risks affect the value of investments and the liabilities arising from products sold. Note 4 to the financial statements addresses Aegon's risk management approach.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility
CSR-policy has a strong link with the company's vision. Primarily we help our clients to secure their financial future; in our CSR-activities we extend that effort – most of the time as voluntary work - towards people in general. As in previous years we helped people during the Pensioen3daagse to understand what they need for their retirement. During the 'Week van het Geld' we gave lectures on several primary schools to raise children's financial awareness on insurance. Several employees, including management, are helping – disabled or bi-cultural entrepreneurs with the start or the enlargement of their business.

Voluntary work in the Collective Labor Agreement
The offices in The Hague and Leeuwarden organized in 2014 twice a voluntary day to highlight the provisions on volunteering in the collective labor agreement. At the first 'Voluntary Friday' in January 170 employees joined . On the second 'Voluntary Friday' in September 230 employees joined. In April 2015 our branch in Groningen will also participate.
More and more departments are doing voluntary work during their yearly teamwork event.

Alzheimer's
Attention was again given in 2014 to our main social sponsorship - the Alzheimer's Center of the VU University Medical Center. Employees took part in the Alzheimer's Rally, the Aegon Bike Challenge was organized for the second time and in our office in The Haue we have had a play performed about Alzheimer's disease.

Outlook

Outlook in general
The insurance industry is now in a period of major change, partly as a result of developments in the economy, but also because customers, legislators and regulators are demanding it. This trend will continue in 2015.

In the pension market, the implementation of the 'Kunduz-akkoord' II and the expected legislation on 'Algemeen Pensioen Fonds' will have a large impact on both our customers and our business practice. The measures on the housing market will have considerable consequences for the mortgage market itself, customers and our operations. It is still uncertain if the brittle recovery of the economy, the housing market and the trust of consumers will endure in 2015. The lack of liquidity in the money markets and persistent low interests rates are still unlikely to just reverse, soon and completely. The issues surrounding the affordability of pensions and healthcare in Dutch society are driving discussion and developments among customers and providers. Intermediation and advice on financial products and services are expected to develop and change further in 2015 where more and more cross-channel solutions are expected to dominate the market.

As reiterated in recent years, technological developments and the digitization of services are accelerating. The traditionally conservative financial world must now take major steps to honor the wishes of its stakeholders.

Finally, it should be noted that cost efficiency will remain high on the agenda of the insurance industry taken into account the economic conditions, the situation in the financial markets and the shrinking insurance market.

Solvency II
Solvency II, a more risk-based and forward-looking supervision regime of insurance companies, will be effective as of January 1, 2016.

As of January 1, 2015 the TSC is replaced by the capital requirement Solvency II (SCR). To ensure that insurance companies are well-prepared for Solvency II, the Supervisor applies the EIOPA Preparatory Guidelines for Solvency II reporting in 2015 as a transitional regime by means of an amendment to the Decree on Prudential Rules for Financial Undertakings (Besluit prudentiële regels Wft – Bpr).

In the run up to Solvency II the parent company, Aegon Nederland N.V., participated in 2014 in the EU-wide insurance stress test exercise which tests the overall resilience of the insurance sector. The results and findings of the EIOPA Stress Test 2014 exercise are set out in detail in the report "EIOPA Insurance Stress Test 2014" published by European Insurance and Occupational Pensions Authority (EIOPA) on 30 November 2014.

Furthermore, Aegon Nederland performs yearly an Own Risk and Solvency Assessment (ORSA) since the pilot in 2011. The ORSA is a continuous process which builds on the existing risk and capital management and business planning processes across Aegon Nederland

Upcoming year Aegon Nederland will focus on the internal model approval for Solvency II and the uncertainties in the Solvency II regulations which should diminish in 2015. The uncertainties mainly relate to the lack of clarity around methodology (e.g. applying matching adjustment, volatility adjuster) and the application of a(n) (Partial) Intern model. These uncertainties can have significant impact on Aegon's Solvency II ratio. Aegon is in the process of applying for a (partial) internal model for Solvency II, which will be submitted to the local supervisory authority (DNB) mid 2015 for approval.

Financial Market outlook
Our base case macro-economic forecast remains largely in line with last year's predictions. We expect the global economy to grow at a moderate pace with the United States taking a leading role together with Europe which is starting to show signs of recovery. Growth will largely be driven by three factors: monetary expansion, fiscal policy and reforms. The Chinese economy will continue to grow but at a slower pace than what we have been used to. The prospects for Emerging Markets vary greatly between countries, especially commodity exporters are facing difficult times. Overall we are moderately positive on global economic growth.

We expect the European central bank to keep interest rates low until 2017. In our base case, inflation will rise to 2% while economic growth increases, this will slowly lead to increasing long term interest rates.
In this scenario Government bond returns will initially be positive but eventually will turn negative. The yields on periphery bonds will be higher increasing the average yield somewhat. Investment grade bonds have an expected return of 0.5%, ABS 0.9%. The outlook for Dutch mortgages remains positive with an expected return of 3.3%. There are three reasons for the high spread on mortgages: 1) banks are increasing their capital ratio's which reduces their ability to lend money 2) mortgages are an illiquid asset class which earns them a premium 3) European legislation punishes relatively high loan to value ratios which are quite common in the Netherlands.

Events after the balance sheet

Besides the above mentioned approval of the Dutch court of the jointly request by Aegon and BPVH to remove restrictions on the capital of the harbor workers' former pension fund Optas, there were no events after the balance sheet date that are of material consequences for Aegon Schadeverzekering's financial position as at December 31, 2014.

Composition of the Executive Board

The Executive Board consisted of five members in 2014: Mr. M.B.A. Keim (chair), Mr. M.J. Edixhoven, Mr. E.W. Koning, Mr. R.J. Spuijbroek and Mr. R.M. van der Tol. Mr. M.J. Edixhoven was appointed at June 1, 2014.

The Hague, April 20, 2015

The Executive Board

M.B.A. Keim

M.J. Edixhoven

E.W. Koning

R.J. Spuijbroek

R.M. van der Tol

Report of the Supervisory Board

General

The Supervisory Board, which has five members, has the duty of supervising and advising the Executive Board on its management of the company.

The Supervisory Board is involved in the preparation of appointments and dismissals of the members of the Executive Board and discusses the company's quarterly results, accounting policies, internal control procedures and strategy. The Supervisory Board is involved in setting the remuneration of the members of the Executive Board, the senior management and the employees of the company. Amongst other the Supervisory Board approves the general principles of the Aegon Nederland remuneration policies, periodically assesses the general principles of the remuneration policy and is responsible for the remuneration policy of the Executive Board.

In 2014, we performed our duties in close co-operation with the Executive Board and held 7 meetings. The average attendance was 94%.

For each of the insurance subsidiaries of Aegon Nederland that are under supervision of De Nederlandsche Bank, namely Aegon Levensverzekering N.V., Aegon Schadeverzekering N.V., Aegon Spaarkas N.V. and Optas Pensioenen N.V., an independent Supervisory Board is in place as of 2011. These Supervisory Boards meet regularly four times a year, simultaneously with the Supervisory Board of Aegon Nederland N.V.

Subjects discussed during the meetings

The quarterly reports and figures for Q4 2013 and Q1, Q2 and Q3 2014 and the budget were discussed during the regular meetings held in February, May, August and November 2014 respectively.

Besides the regular items on the agenda attention was paid to the following special subjects (not limitative):
- Solvency II
- MTP 2015-2017 and budget 2015
- Capital Management Policy
- Annual DNB Focus! results
- AFM 'Spiegel' document: feedback Customer Centricity 2013-2014
- Developments DNB: mortgage portfolio
- Execution of the strategy and strategic Business Line maps
- Aegon Nederland Information Technology
- EY Management Letter 2013
- Annual reports 2013
- Global Employee Survey 2014
- Succession planning/talent review
- Remuneration
- Changes To Pension Scheme (former) employees Aegon NL
- Self-evaluation 2013 and external guided self-evaluation 2013/2014
- PE program 2012/2013 and PE program 2014/2015

Role of the Supervisory Board and the Insurers' Code

The Supervisory Board wishes to make a contribution to restoring trust in the financial sector. We therefore believe that the Insurers' Code is important and we want to set a good example. The Principles of the Code are leading when exercising the Supervisory Board's role. According to the Supervisory Board the entire Code is a way of thinking and operating. For a report of the accountability on the individual principles of the Insurers' Code please also see the 'Corporate Governance – the Insurers' Code' section in the report of the Executive Board.

Gender diversity (article 2:166 Dutch Civil Code)

Aegon Schadeverzekering N.V.'s Executive Board consists of a limited number of members. Also the stringent and particular requirements have restricting effects when searching for appropriate candidates. As a result, the balanced gender diversity is not easy to achieve and has not been achieved in 2014. Moreover, selection and appointment of members of the Executive Board is based on expertise, skills and relevant experience. The Supervisory Board does consider gender diversity in view of the aim of balanced Executive Board composition.

Risk and Audit Committee

The Supervisory Board has formed a Risk and Audit Committee, whose members are Messrs. Jongsma (chairman), Vink and Button.

The Audit and Risk Committee met five times during 2014. The CEO and CFO (Mr. Keim and Mr. Koning) attended these meetings on behalf of Aegon Nederland N.V., along with the Internal Auditor, the manager of Risk Management & Compliance (CRO) and the managers of Capital Management & Policies and Financial Information Management & Reporting. On behalf of PricewaterhouseCoopers Accountants N.V., Mr. Rondhout and Mr. Vermeulen both attended the four regular quarterly meetings. On behalf of EY Accountants – the former independent auditor – Mr. Spiessens and Mr. Snoeks attended the first quarterly meeting.

Standing items on the regular quarterly meeting agenda include (i) financial results of the previous quarter, quarterly reports on (ii) capital management, and (iii) regulatory developments, supplemented with quarterly reports from (iv) Risk Management & Compliance, and (v) Internal Audit, and PricewaterhouseCoopers Accountants N.V. quarterly reports. The Risk and Audit Committee discussed and approved the audit plans of both Internal Audit and PricewaterhouseCoopers Accountants N.V., and discussed the Aegon Nederland Risk Appetite. Additional topics discussed during 2014 include amongst other the annual reports, developments related to and implementation of Solvency II, developments with respect to accounting standards, mortgage valuation, SOx controls, Aegon's new pension scheme and developments in (and follow up on) KoersPlan related legal proceedings. The Risk and Audit Committee reported – partly through the minutes of its meetings – on its findings to the Supervisory Board.

Compensation and Nomination Committee

The Compensation Committee, whose members are Mr. Button and Mr. Vink, physically met once in March 2014 and there were several conference call meetings. In these meetings the remuneration of Executive Board of Aegon Nederland was discussed and approved as well as the new general remuneration policy for Aegon Nederland N.V. Furthermore, the Supervisory Board approved approved the revised 'Remuneration Policy 2014' and the remuneration of 'Identified Staff' of Aegon Nederland N.V.

Members of the Supervisory Board

The Supervisory Board consisted of five members in 2014.

The terms of office of the supervisory directors are as follows:

	Year of first appointment	(Re-) Appointment	Resigns
J.A.J. Vink	2006	May 8, 2014	2018
L. Jongsma	2003	June 22, 2012	2016
D. Terpstra	2007	August, 11, 2011	2015
G.T. Kepecs	2012	September 1, 2012	2016
D.D. Button	2013	November 7, 2013	2017

The Hague, April 20, 2015

The Supervisory Board,

J.A.J. Vink

L. Jongsma

D. Terpstra

G.T. Kepecs

D.D. Button

Financial statements 2014 of Aegon Schadeverzekering N.V.

Statement of financial position

(before profit appropriation)

	Note	31-12-2014	31-12-2013	1-1-2013
Amounts in EUR thousand				
Assets				
Investments	5	1.530.513	1.218.338	1.327.874
Derivatives	6	-	629	-
Receivables from Group companies	7	45.000	30.000	111.000
Reinsurance assets	8	17.195	19.819	12.760
Other assets and receivables	9	41.962	40.231	53.492
Cash and cash equivalents	10	118.463	357.395	227.735
Total assets		**1.753.132**	**1.666.412**	**1.732.860**
Equity and liabilities				
Equity	11	280.590	245.884	279.314
Group equity		**280.590**	**245.884**	**279.314**
Insurance contracts	12	1.417.340	1.389.193	1.317.958
Derivatives	6	14.997	55	-
Deferred tax liabilities	13	19.339	9.693	15.507
Other liabilities and accruals	14	20.867	21.587	120.081
Total liabilities		**1.472.542**	**1.420.528**	**1.453.546**
Total equity and liabilities		**1.753.132**	**1.666.412**	**1.732.860**

Income statement

	Note	2014	2013
Amounts in EUR thousand			
Revenues			
Premium income	15	734.010	729.805
Investment income	16	28.794	29.660
Fee and commission income		203	-
Total revenues		**763.006**	**759.465**
Income from reinsurance ceded		-2.311	6.819
Results from financial transactions	17	15.002	6.512
Total income		**775.698**	**772.796**
Charges			
Premiums to reinsurers	15	16.043	15.957
Policyholder claims and benefits	18	511.963	524.742
Commissions and expenses	19	246.798	253.445
Impairment charges / (reversals)	20	260	153
Interest charges and related fees	21	287	1.192
Total charges		**775.350**	**795.489**
Income before share in profit / (loss) of joint ventures and associates and tax		**347**	**-22.693**
Income / (loss) before tax		**347**	**-22.693**
Income tax	22	-62	5.715
Net income / (loss)		**285**	**-16.978**
Net income / (loss) attributable to the parent company		**285**	**-16.978**

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Statement of comprehensive income

	Note	2014	2013
Amounts in EUR thousand			
Net income		**285**	**-16.978**
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	11	60.169	-15.687
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	11	-14.296	-6.532
Income tax relating to items that may be reclassified	11	-11.452	5.766
Total other comprehensive income for the period		**34.421**	**-16.452**
Total comprehensive income / (loss)		**34.706**	**-33.431**
Total comprehensive income attributable to the parent company		**34.706**	**-33.431**

Total comprehensive income is fully attributable to Aegon Nederland N.V., the parent company of Aegon Schadeverzekering.

Statement of changes in equity

Amounts in EUR thousand

2014

	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
At January 1	30.858	116.808	12.628	85.589	245.884
Net income / (loss) recognized in the income statement	-	-	-	285	285
Other comprehensive income / (loss)	-	-	34.421	-	34.421
Total comprehensive income / (loss)	**-**	**-**	**34.421**	**285**	**34.706**
At December 31	**30.858**	**116.808**	**47.050**	**85.874**	**280.590**

2013

	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
At January 1	30.858	116.808	29.081	102.567	279.314
Net income / (loss) recognized in the income statement	-	-	-	-16.978	-16.978
Other comprehensive income / (loss)	-	-	-16.452	-	-16.452
Total comprehensive income / (loss)	**-**	**-**	**-16.452**	**-16.978**	**-33.431**
At December 31	**30.858**	**116.808**	**12.628**	**85.589**	**245.884**

Cash flow statement

Amounts in EUR thousand	Note	2014	2013
Income / (loss) before tax		**347**	**-22.693**
Results from financial transactions	17	-15.002	-7.102
Amortization and depreciation		13.354	19.394
Impairment losses / (reversals)	20	260	153
Adjustments of non-cash items		**-1.388**	**12.446**
Insurance and investment liabilities		30.770	64.176
Accrued expenses and other liabilities		-2.731	-31.311
Accrued income and prepayments		-1.730	13.260
Changes in accruals		**26.309**	**46.125**
Purchase of investments (other than money market investments)		-687.993	-400.005
Disposal of investments (other than money market investments)		439.049	473.718
Disposal of derivatives		-400	-
Received from group companies		-15.000	16.600
Cash flow movements on operating items not reflected in income		**-264.343**	**90.312**
Tax (paid) / received		143	2.884
Other		-	586
Net cash flows from operating activities		**-238.933**	**129.660**

	Note	2014	2013
Net increase / (decrease) in cash and cash equivalents		**-238.933**	**129.660**
Cash and cash equivalents at the beginning of the year	10	357.395	227.735
Cash and cash equivalents at the end of the year	**10**	**118.463**	**357.395**

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

Included in the net increase/ (decrease) in cash and cash equivalents are:

	2014	2013
Interest received	24.935	24.807
Interest paid	287	1.133
Dividend received	179	166

Notes to the financial statements

1. General information

Aegon Schadeverzekering N.V., incorporated and domiciled in the Netherlands, is a 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. Aegon Schadeverzekering N.V. (or Aegon Schadeverzekering) is a 100% subsidiary of Aegon Nederland N.V. in The Hague. The ultimate parent of the Aegon -group is Aegon N.V. in The Hague.

Aegon Schadeverzekering is active in accident and health insurance, and general insurance.

2. Summary of significant accounting policies

2.1. Basis of presentation

In accordance with IFRS 10.4 Aegon Schadeverzekering N.V. makes use of the exemption to present consolidated financial statements as its parent company, Aegon Nederland N.V., produces consolidated financial statements that are available for public use and comply with IFRS.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) and with Part 9 of Book 2 of the Netherlands Civil Code. The previous financial statements of Aegon were prepared in accordance with article 2: 362.8 of the Netherlands Civil Code. The transition to full IFRS in 2014 did not affect the reported financial position, equity, comprehensive income, net income and cash flows.

Aegon Schadeverzekering N.V. merged with its 100% subsidiaries Aegon Schade Beleggingen B.V. and Heideland Beheer B.V. in December 2014. This legal merger did not impact equity, profit or loss or comparative numbers. The 2013 comparative figures have been prepared as if the legal merger had already been materialised in 2013 and earlier financial years.

The financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of 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.

The financial statements are prepared in euros and all values are rounded to the nearest thousand except when otherwise indicated. 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.

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. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU ‘carve out’ of IFRS.

The financial statements of Aegon Schadeverzekering were approved by the Executive Board and by the Supervisory Board on April 20, 2015. The financial statements are put to the Annual General Meeting of Shareholders on April 20, 2015 for adoption. The shareholders' meeting can decide not to adopt the financial statements but cannot amend them.

2.1.1. Adoption of new IFRS accounting standards

New standards and amendments to standards become effective on 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 Novation of Derivatives and Continuation of Hedge Accounting; and
- IFRIC 21 – Levies.

The above mentioned new standards, amendments to existing standards and interpretations have been endorsed by the European Union.

2.1.2. Future adoption of new IFRS accounting standards

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2015, were not early adopted by Aegon Schadeverzekering, 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.

<u>IFRS 9 Financial Instruments</u>

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 on 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 financial statements of Aegon Schadeverzekering, 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.

<u>IFRS 15 Revenue from Contracts with Customers</u>

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 Aegon Schadeverzekering 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. We are evaluating the impact that adoption of this standard is expected to have on the financial statements of Aegon Schadeverzekering. The full impact will only be clear after full assessment of the standard.

The following amendments to the existing standard and interpretation, published prior to January 1, 2015, which are not yet effective for or early adopted by Aegon Schadeverzekering, will not significantly impact the financial position or financial statements:

- IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception*;
- IFRS 10 and IAS 28 - Amendment Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations*;
- IFRS 14 Regulatory Deferral Accounts*;
- IAS 1- Amendment Disclosure Initiative*;
- IAS 19 Employee Benefits – Amendment Employee Contributions*;
- IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements*;
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization*;
- Annual improvements 2010-2012 Cycle*;
- Annual improvements 2011-2013 Cycle*; and
- Annual improvements 2012-2014 Cycle*

* Not yet endorsed by the European Union

2.2. Foreign exchange translation

Aegon Schadeverzekering's financial statements are presented in Euro's, which is Aegon Schadeverzekering's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Aegon Schadeverzekering does not have investments in group entities of which the functional currency is not the euro.

At the balance sheet date, monetary assets and monetary liabilities in foreign currencies and 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. 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.

2.3. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon Schadeverzekering 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 not be in the event of default, insolvency or bankruptcy of the company or counterpart.

2.4. Investments

General account investments comprise financial assets (excluding derivatives).

2.4.1. *Financial assets, excluding derivatives*

Financial assets (excluding derivatives) are recognized on the trade date when Aegon Schadeverzekering 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 risk management and investment strategy of Aegon Schadeverzekering; and financial assets containing an embedded derivative that is not closely related to the host contract and that cannot be reliably bifurcated.
In addition, in certain instances Aegon Schadeverzekering 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 Aegon Schadeverzekering does not intend to sell in the near future are classified as loans, other than those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are accounted for 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 line item ‘results from financial transactions’ 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. The realized changes in fair value are recognized in the income statement.

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 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 financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the fair 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, Aegon Schadeverzekering 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 Aegon Schadeverzekering 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.

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.

2.5. Derivatives

2.5.1. *Definition*

Derivatives are financial instruments classified as held for trading assets 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, Aegon Schadeverzekering 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.

2.5.2. 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. Fair value changes are recognized in the income statement.

2.5.3. Hedge accounting

As part of its asset liability management, Aegon Schadeverzekering enters into economic hedges to limit its risk exposure. These planned 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.

Aegon Schadeverzekering currently only uses fair value hedge accounting.

Fair value hedge accounting

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 ('base adjustment'). If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative base adjustment is, in the case of interest bearing instruments, amortized through profit or loss over the remaining duration of the hedged items or recognized directly when the hedged items are derecognized.

Aegon Schadeverzekering applies fair value hedge accounting to portfolio hedges of interest rate risk (fair value macro hedging) under the EU 'carve out' of IFRS. The EU 'carve out' macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting. Under the EU 'carve out', ineffectiveness in fair value hedge accounting only arises when the revised projection of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' to mortgage loans. Changes in the fair value of the derivatives are recognized in the profit and loss account, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

2.6. Reinsurance assets

Reinsurance contracts are contracts entered into by Aegon Schadeverzekering in order to receive compensation for losses on contracts written by Aegon Schadeverzekering (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums and a possible provision for doubtful debt. 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 Schadeverzekering 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 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.

2.7. Other assets and receivables

Other assets and receivables include trade and other receivables, deferred expenses, and prepaid expenses.

Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost.

Deferred policy acquisition costs (or DPAC) relates to insurance contracts and represents mainly the variable costs that are related to the acquisition or renewal of these contracts. Acquisition costs are deferred to the extent that they are recoverable. For non-life insurance products they are amortized over the duration of the contract which is generally less than one year. The deferred expenses are derecognized when the related contracts are settled or disposed of. For all products, DPAC is assessed for recoverability at least annually and is considered in the liability adequacy test for each reporting period. The portion of DPAC that is determined not to be recoverable is charged to the income statement.
DPAC is derecognized when the related contracts are settled or disposed of.

2.8. 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) are not included in cash and cash equivalents but are presented as investments.

2.9. 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 Aegon Schadeverzekering'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.

2.9.1. *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 indefinite 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.

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 and VOBA, 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 if no impairment had 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. 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.

2.9.2. *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.

2.9.3. *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 by Aegon Schadeverzekering 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.

2.9.4. *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.

2.10. Equity

Share capital is stated at par value. The share premium reserve, where applicable, relates to capital contributions which have occurred since incorporation without issuing new shares. The revaluation reserves represent the difference between the fair values of available-for-sale assets and (amortized) cost, taking into account income tax.

Dividends and other distributions to holders of equity instruments are recognized directly in equity. A liability for dividends payable is not recognized until the dividends have been declared and approved.

2.11. Insurance contracts

Insurance contracts are accounted for under IFRS 4 – Insurance Contracts. In accordance with this standard, Aegon Schadeverzekering 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 Schadeverzekering applies in general accounting policies for insurance liabilities to the extent that it was allowed under Dutch Accounting Principles.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by Aegon Schadeverzekering prior to the transition to IFRS and with consideration of changes to standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. The valuation methods 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.

Insurance contracts are contracts under which Aegon Schadeverzekering 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. Aegon Schadeverzekering 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 Aegon Schadeverzekering has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance contracts are recognized as of the beginning of the coverage period. If the coverage period commences before all legal documents are signed and returned, the insurance contract shall still be recognized, if

(a) the amount of revenue can be measured reliably:
- The entity has agreed to the following with the other parties to the transaction:
    - each party's enforceable rights regarding the service to be provided and received by the parties;
    - the consideration to be exchanged; and
    - the manner and terms of settlement,
- From Aegon Schadeverzekering's point of view, the date of the offer would be the date Aegon Schadeverzekering agreed to the above. However, this is not necessarily the date at which both parties have agreed to the terms. This could be but is not limited to:
    - a signed and returned offer;
    - an acceptance email from the client;
    - the receipt of first deposits

(b) it is probable that the economic benefits associated with the transaction will flow to the entity.

In the unlikely event of an onerous contract, this contract is to be recognized at the earliest date of:

(a) the beginning of the coverage period or
(b) the date on which both parties have agreed to the terms (the same guidance as for profitable contracts applies).

2.11.1. *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. The reserve is released over the term of the contract 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 Aegon Schadeverzekering. 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 when measuring these insurance liabilities when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

The insurance liability for periodic payments ((*Arbeidsongeschiktheidsverzekering* (AOV) and *Wet Inkomen en Arbeid* (WIA)), is calculated on an ‘item by item’ basis using the 'KAZO' method. For AOV-payments, the calculation takes place according to the 'AOV-2000' principles, discounting the liability at a 3% discount rate. With respect to WIA the claims with respect to long-term sick leave (> 2 years) are calculated on an ‘item by item’ basis and discounted at the DNB curve.

2.11.2. Liability Adequacy Testing with respect to non-life insurance contracts

At each reporting date the adequacy of the non-life insurance liabilities is assessed using a liability adequacy test. The liability is considered to be "adequate" if the current estimate of all contractual future cash flows is less than the insurance liability plus the difference between carrying value and fair value of certain investments. To the extent that the account balances are insufficient to meet future claims and expenses, additional liabilities are established and included in the liability for non-life insurance.

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.

Additions to the insurance liability under the liability adequacy test can be reversed in subsequent periods when they have proven to be no longer necessary.

2.12. Assets and liabilities relating to employee benefits

Aegon Schadeverzekering itself does not have employees. The assets and liabilities arising from employee benefits for staff working for Aegon Schadeverzekering are recognized in the financial statements of Aegon Nederland.

2.13. Borrowings and group loans

Long-term borrowings and group loans are initially recognized at their fair value excluding accrued interest and including directly attributable incremental transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are measured at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried at fair value as part of a fair value hedge relationship. Long-term borrowings and group loans are derecognized when Aegon Schadeverzekering’s obligation under the contract expires or is discharged or cancelled.

2.14. Tax assets and liabilities

Tax assets and liabilities are amounts payable and receivable by Aegon N.V., since Aegon N.V. heads the tax group.

2.14.1. 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.

Aegon Schadeverzekering is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax grouping as if it were an autonomous taxpayer. Aegon

Schadeverzekering is jointly and severally liable for all tax liabilities of the entire tax group. Current taxes are settled in current account with the parent company.

2.14.2. 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 carry forwards 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 assets and liabilities are reviewed at the balance sheet date 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 Schadeverzekering's deferred tax positions periodically to determine if it is probable that the assets will be realized. Periodic 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 strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectations of Aegon Schadeverzekering concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in the income statement, other comprehensive income or directly in equity.

2.15. Other liabilities and accruals

Other liabilities and accruals are initially recognized at fair value plus transaction costs. They are then recognized at amortized cost using the effective interest rate method. A debt is derecognized when the financial obligation is discharged or cancelled. Unless stated otherwise, deferred interest and other accruals are recognized at (amortized) cost.

2.16. 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.

2.17. Premium income and premium outgoing reinsurance

Gross premiums from non-life insurance are recognized as revenue when they become receivable.

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.

Unearned premiums are the portion of premiums written in a financial year that relate to risk periods after the reporting date. Unearned premiums are calculated pro rata. The proportion attributable to subsequent reporting periods is recognized in the reserve for unearned premiums.

Reinsurance premiums are accounted for in the same way as the original contracts for which the reinsurance was concluded.

2.18. 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 dividends accrued and rental income due, as well as fees received for security lending.

2.19. 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.

2.20. Benefits outgoing reinsurance

Reinsurance claims are recognized as income when the related gross insurance claim is recognized in accordance with terms and conditions of the corresponding insurance contract.

2.21. 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.

2.22. Results from financial transactions

Results from financial transactions include:

2.22.1. 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.

2.22.2. 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.

2.22.3. 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. 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.

2.23. Commission and expenses

Employee expenses and other administration expenses incurred are allocated to the period to which they relate. Salaries, social security and pension contributions for staff employed by Aegon Nederland are recharged to Aegon Schadeverzekering as services rendered to Aegon Schadeverzekering. Provisions for retirement plans and other benefits payable to staff of Aegon Nederland are recognized in the financial statements of Aegon Nederland. Similarly, buildings and most of the other equipment used by Aegon Schadeverzekering are made available by Aegon Nederland and the associated costs are recharged.

2.24. Interest charges and related fees

Interest charges and related fees include interest expense on loans and other borrowings. Interest expense on loans and other borrowings carried at amortized cost is recognized in the income statement using the effective interest method. Fees and commissions that form an integral part of the effective return on financial liabilities are recognized as an adjustment to the effective interest rate of the instrument.

2.25. Income tax

Income tax is calculated at the current rate on the pre-tax profits over the financial year, taking into account any temporary and permanent differences between the profit determination in the financial statements and the profit calculation for tax purposes. Taxes comprise deferred and current taxes on profit. Taxes on net income are recognized in the income statement, unless the taxes relate to items that are recognized directly in other comprehensive income. In the latter case, the taxes are also recognized in other comprehensive income.

2.26. 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.

3.1. Continuity

Management estimates that the organization has the resources to continue the business for the foreseeable future. Management is not aware of any material uncertainties which could give rise to doubt the continuity of the business. The financial statements are therefore based on the assumption that the organization will continue in business.

3.2. Changes in estimates

In Q4 Aegon Schadeverzekering changed the discount rate used in measuring the fair value of most of its derivative portfolio. Instead of using the 6 and 3-month swap curve, the OIS curve is now used. The change was made in order to facilitate recent changes in collateral agreements whereas only highly liquid collateral became eligible. The discount rate curve is not changed for measuring derivatives which have alternate collateral agreements. The change in estimate has had a positive effect of EUR 172.642 on income.

3.3. Valuation of assets and liabilities arising from non-life insurance contracts

The main assumptions used in measuring liabilities for accident and health non-life insurance contracts relate to morbidity (sick leave insurance and recoveries), mortality and future expenses. The main assumptions used for the other non-life branches relate to claims statistics (including incurred but not reported, or IBNR), investment return and future expenses. IBNR claims are claims that have occurred but that have not yet been reported to Aegon Schadeverzekering.

Assumptions on morbidity are based on the company's claims history, augmented where necessary with industry information or data from the Dutch Association of Insurers or the Employee Insurances Implementing Agency (UWV or *Uitvoeringsinstituut Werknemers-verzekeringen*) (with respect to WIA).

Assumptions on claims statistics are based on the company's claims history, adjusted where necessary for expected benefits inflation.

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

Lapse rates depend on product features, policy duration and external factors such as foreseeable competitor and policyholder behavior. Company experience and data published by the industry are used in establishing the assumptions.

3.4. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Schadeverzekering 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:

(a) in the principal market for the asset or liability; or

(b) in the absence of a principal market, in the most advantageous market for the asset or liability.

Aegon Schadeverzekering uses the following hierarchy for measuring and disclosing the fair value of assets and liabilities:

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon Schadeverzekering 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 Schadeverzekering 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 determined that the 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 in its entirety is classified 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 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. 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 the fair value hierarchy of Aegon Schadeverzekering, 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.

3.5. Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forwards of unused tax losses and carry forwards of unused tax credits when in the judgment of management it is more likely than not that Aegon Schadeverzekering will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews the deferred tax positions of Aegon Schadeverzekering periodically to determine if it is more likely than not that the assets will be realized. Periodic 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 strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

4. Risk management

4.1. Governance

The risk management of Aegon Schadeverzekering takes place at holding level and is executed by Aegon Nederland. The main objective of the risk management structure at Aegon Nederland is to protect stakeholders, including customers, shareholders and employees, against ongoing obstacles to achieving their aims. The Executive Board and management recognize the importance of efficient and effective risk management systems.

Aegon Nederland has a risk management structure in line with the Internal Control Framework of Aegon N.V. The risk management function has been designed with specific attention to operating, financial and underwriting risks.

Aegon Schadeverzekering has its own Executive Board and Supervisory Board. The Executive Board of the parent company participates in the Executive Board of Aegon Schadeverzekering. Reports are made to the shareholder and the regulator in accordance with the terms of the license.

4.2. Capital and solvency

Aegon Nederland manages its capital at an overall level and at the level of the legal entities with the aim of having a healthy financial position, now and into the future, even after sustaining losses from adverse market conditions. During 2014 and 2013, Aegon Nederland maintained capital to the highest of the levels required by the regulator, Standard & Poor's requirements for 'very strong' capitalization and also according to additional self-imposed economical requirements. Each of these capital requirements is computed differently.

The insurance activities of Aegon Schadeverzekering are subject to the European Solvency I directives as implemented in the Netherlands. Aegon Schadeverzekering's solvency ratio was 213% on December 31, 2014 (2013: 184,5%). Aegon Schadeverzekering held sufficient capital to meet the regulator's and self-imposed requirements during 2014 and 2013.

In addition to the Solvency I regime, Aegon Nederland has drawn up its 'own risk framework' in anticipation of the introduction of Solvency II, under which it is obliged to maintain sufficient capital to be able to meet its obligations with a 99,5% confidence level (Value at Risk).

4.3. Product information

This section summarizes the features of products sold by Aegon Schadeverzekering, giving details that offer insight into the commercial activities and associated risks.

4.3.1. Insurance products for general account

Accident and health insurance

Aegon Schadeverzekering offers disability and sick leave insurance. It does not offer products with extended health cover. The timing, frequency and amount of the insured claims are uncertain. If the premiums are not guaranteed, Aegon Schadeverzekering is entitled to increase them if this is justified by adverse results and historical experience. With group contracts, it is standard practice at the end of the contract period to propose a new premium for the new period, depending in part on the results and past experience. An additional risk lies in investing the recurring future premiums at interest rates that may be lower than was assumed when setting the premium for the product.

General insurance

Aegon Schadeverzekering offers a wide range of non-life insurance products, including liability, household, automotive and fire protection. The risks covered by non-life insurance are uncertain events relating to the insured property. The timing, frequency and amount of the insured costs are uncertain.

4.4. The risk management approach

Risk management at Aegon Nederland is at the central and legal entity levels and is based in part on principles and policy laid down by Aegon N.V. Integrated risk management at Aegon Nederland contributes to the uniform definition of the scope and measurement of risks throughout Aegon Nederland.

Risk Governance at Aegon Nederland has been set up on the 'three lines of defense' principle. The first line is responsible for managing and taking risk, the second line ensures that the first line accepts its risk management responsibilities and looks at all material risks. In the third line, the internal audit department provides independent assurance to management.

The risk management structure at Aegon Nederland is part of the 'second line of defense' and features a clear hierarchical structure:

1. Supervisory Board (including the Audit Committee);
2. The Executive Board of Aegon Nederland;
3. The Risk & Capital/Compliance Committee (RCC) and the Risk and Audit Committee (RAC).

Risk Management operates within the above mentioned risk management framework. The Enterprise Risk Management (ERM) framework within Aegon Nederland includes the risk policy in use. Identifying, monitoring, reporting and managing risks is an integral part of the risk policy. Breaches of limits set in the risk policy are reported and addressed immediately.

Aegon Nederland has developed a risk universe that categorizes risks inherent to the operating activities. This includes underwriting, operational and financial risks. Some of these risks arise from internal factors, such as inadequate compliance systems. Other factors, such as movements in interest rates or unexpected changes in mortality trends are of an external nature. These internal and external risks may affect operating activities, income, the value of investments and sales of certain products and services.

Identified risks are managed within the Risk Control framework that ensures a minimum level of internal control at Aegon Nederland. The Risk Control framework focuses on financial and operational controls that offer assurance for the reliability, accuracy, timeliness, and quality of the internal and external reporting requirements that Aegon Nederland has to meet.

All material risks are managed in accordance with the risk profile of Aegon Nederland. These risks are linked to the management decision-making process relating, for example, to the revision of the business objectives, redesign of risk and capital strategies and the adjustment of risk tolerance. Account is also taken of risks which cannot yet be quantified, but for which a prudent capital buffer is required. Such risks are regarded as part of the identification and assessment process for new risks.

Capital Management & Policies sets the target values for the capital level, given Aegon Nederland's risk profile and desired rating. The aim of our asset management is to ensure that there are adequate capital resources to meet our future obligations and to allocate capital as efficiently as possible to support growth.

Risks and potential threats to future solvency are evaluated in the Medium Term Plan (MTP) which considers the business plan for a period of three years. The MTP also includes various stress and scenario tests to offer more insight into how Aegon Nederland is affected by changes in macro and micro-economic factors. Thanks to these tests, Aegon Nederland can properly estimate the impact of different scenarios on its risk profile, business results and capital position.

When considering Aegon Nederland's exposure to new risks, a number of factors are analyzed, including external information, reported losses and the results of product analyses. Each new risk that may potentially have a material impact is reported to management and discussed in such a way that it can be prioritized. Management decides whether new risks should be included in the existing risk universe via the ERM framework. New risks are then incorporated in the existing Risk Management processes.

4.4.1. IFRS sensitivities

Results of Aegon Schadeverzekering's sensitivity analyses are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each type of market risk, the analysis shows how net income and 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 Schadeverzekering'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 Schadeverzekering's accounting policies[1]. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. 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 provided below.

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 prudent assumptions. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and equity. Aegon Schadeverzekering 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 equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked directly to the revaluation reserves in equity, unless impaired. As a result, economic sensitivities predominantly impact equity but leave net income unaffected.

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 Schadeverzekering's future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon Schadeverzekering'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.

The sensitivity analyses below address investments for general account.

4.4.2. Currency exchange rate risk

Aegon Schadeverzekering does not face currency exchange risk on its insurance portfolio. Currency risk in the investment portfolios is managed using asset liability matching principles and hedged as far as possible.

4.4.3. Interest rate risk

Aegon Schadeverzekering's policy is that the interest rate risk on its balance sheet must be kept as limited as possible on market value principles. Under current IFRS, this means that movements in interest rates may lead to movements in the (IFRS) capital as a result of the

[1] Please refer to note 3 for a description of the critical accounting estimates and judgments.

accounting mismatch, while the capital on market consistent policies is much less sensitive to interest rate movements. The IFRS result may also be sensitive to movements in interest rates despite hedging risks. Persistent low interest rates will lead to a lower return on reinvestments. Coupon income on existing investments will not change in those circumstances.

Aegon Schadeverzekering manages its maturity mismatch (the difference between the average maturity of liabilities and the average maturity of investments) within given limits. The position is actively monitored and adjusted when necessary. Aegon Schadeverzekering manages interest rate risk closely, taking into account all complexity on the conduct of policyholders and management action, making active use of derivatives and other risk mitigation instruments.

Under IFRS, unrealized gains in the value of the insurance liabilities consequent to a rise in interest rates are not reflected in net income and equity. If interest rates fall, there will be unrealized gains on certain investments which positively affect the net income and equity. If the liability adequacy test shows that the insurance liability in the statement of financial position is in deficit, this has to be supplemented through the income statement.

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%	3,04%	1,78%	1,89%	3,30%
10-year Dutch government	0,84%	2,35%	1,61%	2,39%	3,28%

Sensitivity of interest rates
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 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 contracts is not fully reflected in the sensitivities because not any of these liabilities are 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 Aegon Schadeverzekering.

Parallel movement of yield curve

Parallel movement of yield curve	2014		2013	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-1.025	-38.477	-192	-28.509
Shift down 100 basis points	1.025	38.477	192	28.509

During 2014, the derivative portfolio increased to hedge interest risk on the also increased mortgage loan portfolio of Aegon Schadeverzekering (refer to note 6.1). This derivative portfolio consists of swaps. The floating legs of these swaps included in the hedge relation causes infectivity which impacts net income. Due to the increased derivative portfolio the impact of interest rate shocks increased accordingly.

4.4.4. Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon Schadeverzekering typically bears the risk for investment performance equaling the return of principal and interest. Aegon Schadeverzekering 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 Schadeverzekering incurred significant investment impairments on Aegon Schadeverzekering'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 Schadeverzekering's business, results of operations and financial condition.

The tables that follows shows the maximum exposure of Aegon Schadeverzekering to credit risk from investments in general account financial assets and reinsurance assets, collateral held and net exposure. Please refer to note 24 and 25 for further information on capital commitments and contingencies and on collateral given, which may expose Aegon Schadeverzekering to credit risk.

Positions for general account in the balance sheet

2014 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees	Master netting agreement	Surplus collateral	Total	
Shares	307.943	-	-	-	-	-	-	-	307.943
Debt securities	723.376	-	-	-	-	-	-	-	723.376
Mortgage loans	487.905	4.294	-	635.576	13.994	-	-208.957	444.906	42.999
Private loans	9.000	-	-	-	-	-	-	-	9.000
Other loans	2.288	-	-	-	-	-	-	-	2.288
Other financial assets	-	-	-	-	-	-	-	-	-
Investments in inv. funds	-	-	-	-	-	-	-	-	-
Derivatives with pos. values	-	-15.000	-	-	-	14.997	-	-3	3
Reinsurance assets	17.195	-	-	-	-	-	-	-	17.195
Total	**1.547.708**	**-10.706**	**-**	**635.576**	**13.994**	**14.997**	**-208.957**	**444.903**	**1.102.805**

2013 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees	Master netting agreement	Surplus collateral	Total	
Shares	7.046	-	-	-	-	-	-	-	7.046
Debt securities	706.541	-	-	-	-	-	-	-	706.541
Mortgage loans	502.035	4.181	-	661.302	12.172	-	-206.727	470.928	31.106
Private loans	63	-	-	-	-	-	-	-	63
Other loans	2.654	-	-	-	-	-	-	-	2.654
Other financial assets	-	-	-	-	-	-	-	-	-
Investments in inv. funds	-	-	-	-	-	-	-	-	-
Derivatives with pos. values	629	-	-	-	-	56	-	56	573
Reinsurance assets	19.819	-	-	-	-	-	-	-	19.819
Total	**1.238.785**	**4.181**	**-**	**661.302**	**12.172**	**56**	**-206.727**	**470.984**	**767.802**

Mortgage loans
The real estate collateral for mortgage loans comprises mainly residential properties. The collateral received for 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 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 (*Nationale Hypotheek Garantie* or NHG) are presented in the guarantees column. These specific mortgage loans are partly guaranteed by the Dutch Government Trust (Stichting Waarborgfonds Eigen Woningen). The guarantee encompasses the remaining debt for these mortgage loans, being the remainder of the mortgage loan (had this been an annuity-based repaid mortgage loan) minus the foreclosure value.

The ‘surplus collateral’ column represents the surplus value of individual mortgage loans (where the value of the real estate is higher than the value of the mortgage loan) as Aegon Schadeverzekering is not entitled to this part of the collateral.

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.

Collateral
Aegon Schadeverzekering has no assets received as non-cash collateral which can be sold or which themselves can serve as collateral without the owner of the assets being in default.

Credit risk management

Losses as a result of credit risk are a natural part of investing in fixed-income securities. The amount of and compensation for this risk are related. A significant management measure to avoid excessive credit risk is to diversify and limit exposure to individual issuers.

Aegon N.V. operates a Credit Name Limit Policy under which limits are placed on its aggregate exposure to any one counterparty; limits are set at Aegon Nederland level. For further management of the credit risk, Aegon Nederland applies a credit limit covering all credit risks with each counterparty. All credit risks to a counterparty are totaled and then set against the credit limits.

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 Nederland’s internal rating of the counterparty. If an exposure exceeds the stated limit, the exposure must be reduced to the limit as soon as possible. Exceptions to these limits can only be made with explicit approval from Aegon Nederland’s Risk and Capital Committee. The policy is reviewed regularly.

The ratings distribution of the general account investments is presented in the table in note 4.4.5 ‘Credit rating’.

Aegon Nederland's level long-term counterparty exposure limits, are as follows:

In million EUR	**Limit 2014**	**Limit 2013**
AAA	270	270
AA	270	270
A	190	190
BBB	125	125
BB	75	75
B	38	38
CCC or lower	15	15

The limits in this table are not applicable to sovereign exposures that are rated A or above. For these exposures Aegon N.V. has set limits which are only applicable and reported at a consolidated Aegon N.V. level[2]. Sovereign exposures (regardless of rating) that are issued by the government of the functional currency of the Regions' business and also owned in that currency and sovereign exposures that are rated AAA by all three major agencies (S&P, Fitch and Moody's) are exempt from the policy.

When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. In 2014 there have been no violations of the Credit Name Limit Policy.

4.4.5. *Credit rating*

The rating distribution of general account portfolios of Aegon Schadeverzekering, including 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. Disclosure of ratings follows a hierarchy of S&P, Moody's, Fitch, Internal and National Association of Insurance Commissioners (NAIC).

Investments for general account by rating

2014	Amortized cost	Fair value	Reinsurance assets	Total 2014
Sovereign exposure	-	428.676	-	428.676
AAA	9.000	49.598	-	58.598
AA	-	19.101	11.343	30.444
A	-	86.880	5.615	92.495
BBB	-	139.121	-	139.121
BB	-	-	-	-
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	490.193	307.943	238	798.374
Total on balance credit exposure	**499.193**	**1.031.320**	**17.195**	**1.547.708**
Of which past due and / or impaired assets	7.429	-	-	7.429

[2] A-rated: EUR 675 million; AA-rated EUR 900 million; AAA-rated: EUR 1.800 million

2013	Amortized cost	Fair value	Reinsurance assets	Total 2013
Sovereign exposure	-	378.438	-	378.438
AAA	-	28.767	-	28.767
AA	-	25.408	12.739	38.147
A	63	121.038	6.796	127.896
BBB	-	150.617	-	150.617
BB	-	2.272	-	2.272
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	504.688	7.675	284	512.647
Total on balance credit exposure	**504.751**	**714.216**	**19.819**	**1.238.785**
Of which past due and / or impaired assets	6.874	-	-	6.874

The ‘Assets not rated’ category relates specific to equities at fair value and other financial assets at amortized cost (mainly mortgage loans). The ‘Sovereign’ category in this table is entirely government paper with a AAA rating.

4.4.6. *Credit risk concentration*

The tables that follows presents specific credit risk concentration information for general account financial assets.

Credit risk concentration – debt securities and money market investments

	2014	2013
ABSs- Collateralized Debt Obligations (CDO's)	59.968	32.833
ABSs- Credit cards	-	370
ABSs- Other	4.315	533
Residential mortgage backed securities (RMBSs)	-	-
Commercial mortgage backed securities (CMBSs)	-	-
Investments in unconsolidated structured entities	64.283	33.736
Financial - Banking	8.176	34.395
Financial - Other	5.556	4.260
Industrial	186.965	215.873
Utility	29.721	39.840
Sovereign exposure	428.676	378.438
Total	**723.376**	**706.541**
Of which past due and / or impaired assets	-	-

Aegon Schadeverzekering has limited investments in unconsolidated structured securities (such as ABSs). These unconsolidated structured securities are presented in the line item "Investments" of the statement of financial position.

Credit risk concentration – mortgage loans

	2014	2013
Agricultural	-	-
Apartment	68.405	70.240
Office	-	-
Retail	-	193
Other commercial	2.653	2.743
Residential	416.848	428.858
Total	**487.905**	**502.035**
Of which past due and / or impaired assets	7.429	6.873

Fair value of the mortgage loan portfolio:	2014	2013
Fair value mortgage loans	545.256	549.166
The LTV was approximately	76,6%	78,9%
The part of the portfolio that is government guaranteed	77,8%	75,3%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,7%	0,5%
Impairments during the year	179	153

Unconsolidated structured entities

Aegon Schadeverzekering's unconsolidated structured entities (such as 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.

2014	Number of entities	Carrying amount
EUR 0 < 10 mln	21	64.283
> EUR 10 < 25 mln	-	-
> EUR 25 < 50 mln	-	-
> EUR 50 < 75 mln	-	-
> EUR 75 < 100 mln	-	-
> EUR 100 < 150 mln	-	-
> EUR 150 < 250 mln	-	-
> EUR 250 mln	-	-
At December 31	**21**	**64.283**

2013	Number of entities	Carrying amount
EUR 0 < 5 mln	21	41.678
> EUR 5 < 10 mln	1	10.095
> EUR 10 < 15 mln	-	-
> EUR 15 < 20 mln	-	-
> EUR 20 < 25 mln	-	-
> EUR 25 mln	-	-
At December 31	22	51.773

For unconsolidated structured entities in which Aegon Schadeverzekering has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflect the carrying values recognized in the statement of financial position of Aegon Schadeverzekering's interests in unconsolidated structured entities. Aegon Schadeverzekering did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

Type of asset in unconsolidated entity	2014				
	Commission and fees	Interest income	Total gains and losses	**Total**	**Investments**
Asset Backed Securities	-	990	124	**1.114**	59.968
ABS's - Other	-	17	-1	**16**	4.315
Total	**-**	**1.007**	**123**	**1.131**	**64.283**

Aegon Schadeverzekering did not provide financial or other support to unconsolidated structured entities. Nor does Aegon Schadeverzekering have intentions to provide financial or other support to unconsolidated structured entities in which Aegon Schadeverzekering has an interest or previously had an interest.

4.4.7. Past due and impaired financial assets

The tables that follow provide information on past due or impaired financial assets for Aegon Schadeverzekering. A financial asset is past due when a counterparty has failed to make a payment when it was due under the contract. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Aegon Schadeverzekering takes the following factors into account when deciding whether to impair financial assets:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

After the impairment loss is reversed in a subsequent period, the asset is no longer considered to be impaired. When the terms and conditions of the financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

At year end, no collateral, except that for mortgage loans, was held for financial assets which were past due or which had undergone individual impairment.

The carrying amount of the assets that are (partly) impaired is:

<u>Impaired financial assets</u>

	2014	2013
Mortgage loans	6.612	6.873
Total	**6.612**	**6.873**

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 358 thousand (2013: EUR 390 thousand).

Past due but not impaired financial assets

2014	0-6 months	6-12 months	> 1 year	2014
Mortgage loans	817	-	-	817
Total	**817**	**-**	**-**	**817**

2013	0-6 months	6-12 months	> 1 year	2013
Mortgage loans	-	-	-	-
Total	**-**	**-**	**-**	**-**

4.4.8. *Equity market risk and other investments risk*

Fluctuations in the equity, real estate and capital markets have affected Aegon Schadeverzekering'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 Schadeverzekering bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts policyholder accounts 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 Schadeverzekering on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees. Aegon Schadeverzekering also operates an Investment and Counterparty Policy that limits the Group's overall counterparty risk exposure.

The general account equity portfolio of Aegon Schadeverzekering is as follows:

	2014	2013
Equity funds	300.912	-
Common shares	7.032	7.046
General account shares	307.943	7.046
Total	**307.943**	**7.046**

Aegon Schadeverzekering invested in the Aegon money market fund in 2014.

The other equity investments in common shares comprise investments in entities where Aegon Schadeverzekering does not have significant influence and which relate to interests where it participates because of its insurance activities. These investments are not listed and as such net income and equity are not influenced by changes in equity prices with respect to these investments.

Information on closing levels of certain major indices at the end of the last five years

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

4.4.9. Derivatives risk

Aegon Schadeverzekering uses financial derivatives, such as interest rate swaps, options, futures and currency contracts to hedge risks relating to investments for general account and loans. Not all risks to which Aegon Schadeverzekering is exposed can be adequately managed using derivatives. In addition, a counterparty in a derivative contract may fail to meet its obligations towards Aegon Schadeverzekering. Either situation can have significant adverse consequences for Aegon Schadeverzekering's operations, operating results and financial position.

Aegon Schadeverzekering operates a policy to monitor the use of derivatives. This policy sets out the control, authorization, implementation and monitoring requirements for using these instruments and also stipulates the necessary credit risk limiting actions using derivatives. In general, credit risk with derivatives is reduced by collateral requirements in the contract.

4.4.10. Liquidity risk

Liquidity risk is inherent in much of Aegon Schadeverzekering's activity. Each asset purchased and liability assumed has its own liquidity characteristics. Although most liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement, some can be called on demand. In normal circumstances, a significant proportion of the investment portfolio can be quickly converted into liquid assets but some assets, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises are not highly liquid. If Aegon Schadeverzekering requires more than the normal amount of cash at short notice, it may have difficulty selling these investments at attractive prices or in a timely manner.

Aegon Nederland and its subsidiaries operate a liquidity risk policy that focuses on holding sufficient highly liquid assets so that liquidity requirements can be met both in normal market conditions and in extreme situations resulting from unforeseen circumstances.

Aegon Schadeverzekering receives premiums from policyholders and, in exchange, is required to make payments at a later time if certain conditions are met. The amounts received are invested primarily in fixed-income assets. Investments in less liquid assets may lead to an increase in expected income from the investment portfolio, but are more difficult to convert into cash if an unexpected payment has to be made to a policyholder or contract holder. Internal liquidity tests are designed to quantify this risk and ensure that there is sufficient liquidity even under extreme conditions. The aim of the internal liquidity test is to compare the liquidity requirement against the amount available in a number of scenarios.

Management uses this information for insight into the liquidity position and may, if necessary, make adjustments.
The liquidity position is tested in the following scenarios:

1. Base scenario, assuming current market conditions; this is the 'business as usual' situation.
2. Stressed liquidity scenario, in which both liabilities and assets are stressed. This assumes extreme withdrawals of liabilities as a result of an immediate and full letter downgrade of both Aegon's long-term financial health and short-term credit ratings. Furthermore, assets suffer an immediate capital market shock resulting in an initial inability to sell investments other than 'highly liquid' ones. At the same time, assets and liabilities are assumed to have a permanent 3% parallel increase in (risk-free) interest rate.

Coverage ratio
Liquidity risk management includes calculating a 'coverage ratio' for each scenario. The coverage ratio is defined as actual liquidity divided by the liquidity requirement.

Liquidity risk management ensures that the coverage ratio under stressed liquidity scenario is at least 1.25 for the first 30 days and 1.0 for the rest of the tested two-year period. If the coverage ratio falls below these levels for any tested period, an action plan has to be drawn up by the management to adjust the liquidity position when the relevant scenario actually arises.

Warning levels are defined as: 1.66 coverage ratio for the first 30 days and 1.33 for the rest of the tested two-year period for under stressed liquidity scenario. If the coverage ratio in any tested period falls below an warning level, this is reported to the management.

Internal reports are made on whether Aegon Schadeverzekering has adequate liquidity at the stressed liquidity scenario. If the coverage ratio falls below the fail level, management action and its effect on the coverage ratio are also reported.

Available liquidity
Available liquidity is determined by modeling the asset cash flows. These include but are not limited to:

- Diarized (contractual) repayments and coupon payments;
- Expected advance payments on certain categories of assets, such as early repayment of mortgage loans;
- Expected extensions of maturity on certain categories of assets;
- Sales proceeds on assets taking into account a maximum haircut of 1% compared with the current mid-rate.

Some cash flows are fixed and/or highly probable, while others depend on the specific market conditions involved in the scenarios. For example, it is assumed in the stresses liquidity scenario that assets other than highly liquid sovereign or corporate bonds which are explicitly and fully guaranteed by the local authorities cannot be sold in the first 6 months.

Required liquidity
The required liquidity is computed by modeling the cash flows from liabilities. These include but are not limited to:

- Diarized (contractual) repayments at maturity;
- Diarized benefits and claims;
- Non-diarized full or partial withdrawal of assets at call;
- Use of policy loans;
- Periodic premium payments and potential changes in them;
- New business activities.

For liabilities too, some cash flows are fixed and stable but most will vary considerably when a different liquidity scenario is applied. There will usually be little new commercial activity if Aegon Schadeverzekering's rating is cut and the situation in the financial market deteriorates. The amount of cash provided as collateral for some derivative transactions will then also increase.

Results of the coverage ratios
Aegon Schadeverzekering holds EUR 531 million (2013: EUR 720 million) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The afore mentioned amounts are based upon Aegon Schadeverzekering's internally used definitions when testing the liquidity.

The coverage ratio is calculated after modeling the expected cash flows for assets and liabilities for each period of up to two years. The results of the coverage ratio, available liquidity divided by the required liquidity, show that Aegon Schadeverzekering had sufficient liquidity in different scenarios and for all tested periods at year-end 2014. Aegon Schadeverzekering's coverage ratio at year-end 2014 was not below the warning nor the fail level for stressed liquidity scenario.

On the basis of operating cash flows and the income from financial assets, therefore, Aegon Schadeverzekering expects to be able to continue to meet its liabilities.

Maturity analysis liabilities – gross undiscounted contractual cash flows (for non-derivatives)

The tables below show the remaining contractual maturities for each category of financial liability. 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 are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Schadeverzekering has to assume that notice is given immediately and the repayment is 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, if 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.

2014	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2014
Long-term loans and group loans	-	-	-	-	-	-
Other financial liabilities	552	19.585	730	-	-	20.867
Total	**552**	**19.585**	**730**	**-**	**-**	**20.867**

2013	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2013
Long-term loans and group loans	-	-	-	-	-	-
Other financial liabilities	906	20.681	-	-	-	21.587
Total	**906**	**20.681**	**-**	**-**	**-**	**21.587**

Expected undiscounted cash flows relating to insurance and investment contracts

Aegon Schadeverzekering's liquidity management is based on expected claims, 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 comparable with Aegon Schadeverzekering'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.

The liability amount in the 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 differs from the corresponding liability amounts included in note 12 'Insurance contracts'.

2014	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2014
Insurance contracts	278.706	406.874	228.889	343.809	1.258.278
Total	**278.706**	**406.874**	**228.889**	**343.809**	**1.258.278**

2013	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2013
Insurance contracts	274.998	411.595	251.911	377.494	1.315.999
Total	**274.998**	**411.595**	**251.911**	**377.494**	**1.315.999**

Maturity analysis – derivatives (contractual cash flows)

The table below shows the liquidity analysis for 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.

For gross settled derivatives, cash flows are presented in the table below for both the 'paying leg' and the 'receiving leg'. The credit risk on the 'receiving leg' is mitigated by collateral and ISDA 'master netting' agreements as explained for 'credit risk'.

This table includes all financial derivatives regardless of whether they have a positive or a negative value. For interest rate derivatives only cash flows related to the 'paying leg' are taken into account for determining the gross undiscounted cash flows.

2014	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2014
Cash inflows	-	130	700	3.536	4.737	9.103
Cash outflows	-	-2.557	-7.292	-9.390	-6.916	-26.155

2013	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2013
Cash inflows	-	282	3.912	9.871	9.085	23.150
Cash outflows	-	-1.708	-6.531	-7.324	-6.626	-22.189

4.4.11. Underwriting risk

General information

Aegon Schadeverzekering's results depend on the degree to which the actual benefit payments are in line with the assumptions used for pricing products and setting the amount of the technical provisions and the liability for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, income will be reduced. Furthermore, if these higher claims were part of a permanent trend, Aegon Schadeverzekering may have to increase the provisions, which will further reduce income.

Aegon Schadeverzekering monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. Aegon Schadeverzekering also performs experience studies for underwriting risk assumptions, comparing its experience to industry experience as well as combining its experience and industry experience based on the depth of the history of each source to its underwriting assumptions.

Morbidity risk - non-life insurance products

Morbidity risk is faced on certain non-life insurance products, such as accident insurance risk if morbidity increases.

Assumptions on morbidity are based on the company's claims history, augmented where necessary with industry information or data from the Dutch Association of Insurers or the Employee Insurances Implementing Agency (UWV or

Uitvoeringsinstituut Werknemers-verzekeringen) (with respect to WIA). As there is a lag in data provided by the UWV, this could have effect on the insurance liability.

Expenses

The entity also runs the risk of costs being higher than expected by management.

Reinsurance policy

For non-life, Aegon Schadeverzekering mainly reinsured its property, marine and motor third party liability business. 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 Transport and Motor insurance, an “excess of loss” contract is in place with a retention level of EUR 2,5 million for each separate risk. For Marine insurance there is also an “excess of loss” contract in place with a retention level of EUR 2 million for each separate risk.

Notes to the table

Sensitivity analysis of net income and shareholders’ equity to various underwriting risks is shown in the table that follows. The sensitivities represent an increase or decrease of various underwriting risks over best estimate. The impact on net income and shareholders’ equity of sales transactions of investments required to meet the higher cash outflow is reflected in the sensitivities. A change in actual experience may not lead to a change in the assumptions underlying the measurement of the insurance liabilities as management may recognize that the change is temporary.

	2014		2013	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
20% increase in lapse rates	-	-	-	-
20% decrease in lapse rates	-	-	-	-
10% increase in mortality rates	-	-	-	-
10% decrease in mortality rates	-	-	-	-
10% increase in morbidity rates	-2.344	-2.344	-3.184	-3.184
10% decrease in morbidity rates	2.344	2.344	3.184	3.184

4.4.12. Other risks

Catastrophes

Natural disasters, terrorism and fires could disrupt Aegon Schadeverzekering’s operations and result in significant loss of property, substantial personnel losses and the destruction of company and customer information. Generally, Aegon Schadeverzekering seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance.

Legislation and regulation

Aegon Schadeverzekering’s insurance activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation of insurance products may affect Aegon Schadeverzekering’s products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Schadeverzekering’s ability to sell new products or its claims exposure on existing ones. Additionally, new or amended legislation or regulations may be more restrictive or result in higher costs than lead to higher costs than is currently the case.

Legal proceedings

Aegon Schadeverzekering faces risks of litigation and regulatory investigations and actions in connection with its activities. Increasingly in recent years, the financial services sector has faced litigation, regulatory investigations and actions from a range of governmental and regulatory bodies relating to generally accepted practices in the industry. A judgment on a large claim or strict measures by regulatory bodies may have serious consequences for Aegon Schadeverzekering's operations, operating results and financial position.

5. Investments

Investments for general account comprise financial assets, excluding derivatives. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 23.2.

	Note	2014	2013
Available-for-sale financial assets (AFS)	5.1	730.408	713.587
Loans (amortized cost)	5.2	499.193	504.751
Financial assets at fair value through profit or loss (FVTPL)		300.912	-
Total financial assets, excluding derivatives		**1.530.513**	**1.218.338**
Investments in real estate		-	-
Total investments		**1.530.513**	**1.218.338**
Investments in investment funds		-	-
Total investments for general account		**1.530.513**	**1.218.338**

5.1. Financial assets, excluding derivatives

2014	AFS	Loans	FVTPL	Total	Fair value
Shares	7.032	-	300.912	307.943	307.943
Debt securities	723.376	-	-	723.376	723.376
Money market and short-term investments					
Mortgage loans	-	487.905	-	487.905	545.256
Private loans	-	9.000	-	9.000	8.596
Other	-	2.288	-	2.288	2.288
At December 31	**730.408**	**499.193**	**300.912**	**1.530.513**	**1.587.459**

2013	AFS	Loans	FVTPL	Total	Fair value
Shares	7.046	-	-	7.046	7.046
Debt securities	706.541	-	-	706.541	706.541
Money market and short-term investments					
Mortgage loans	-	502.035	-	502.035	549.166
Private loans	-	63	-	63	65
Other	-	2.654	-	2.654	2.654
At December 31	**713.587**	**504.751**	**-**	**1.218.338**	**1.265.472**

	2014	2013
Current	422.907	138.704
Non-current	1.107.605	1.079.634
Total financial assets, excluding derivatives	**1.530.513**	**1.218.338**

Reference is made to note 23 for information on fair value measurement.

In 2014, Aegon updated the fair value calculation of its Dutch mortgage loans based on additional market observable data. This resulted in an increase in the discount rate used to present value the future cash flows, mainly driven by an increase in the cost of funds. The carrying value, at amortized cost, of Dutch mortgage loans on Aegon's balance sheet has not been impacted by the update of the fair value calculation.

Certain mortgage loans shown within the category amortized loans are designated for hedge accounting purposes and are fair valued with respect to the hedged interest rate. This resulted in an increased carrying value of EUR 15,7 million (2013: -/- EUR 590 thousand).

None of the financial assets has been reclassified during the financial year.

5.2. Loans

Other loans comprise deposits with insurance companies with respect to reinsurance agreements. These are not freely available.

Loan allowance account

Movements on the loan allowance account during the year were as follows:

	2014	2013
At January 1	632	526
Addition charged to income statement	179	153
Amounts written off	-1	-48
At December 31	**810**	**632**

6. Derivatives

	Note	Derivative asset		Derivative liability	
		2014	2013	2014	2013
Derivatives designated as fair value hedges	6.1	-	628	14.997	55
Total		**-**	**629**	**14.997**	**55**

	2014	2013
Current	-63	-
Non-current	-14.934	573
Total net derivatives	**-14.997**	**573**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 23.2.

6.1. Use of derivatives

Derivatives designated as fair value hedges

Aegon Schadeverzekering's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result. This offset is only possible when using the EU carve-out on hedge accounting.

The table below summarizes the effect of the fair value hedges.

	2014	2013
Fair value changes mortgage loans recognized in income statement under the EU carve-out	15.720	-590
Offsetted amount of fair value changes recognized on derivatives used as hedging instrument	-15.797	573
Total accounting ineffectivenes under the EU carve-out recognized in the income statement	**-78**	**-17**

Fair value of outstanding derivatives designated under fair value hedge accounting was:

	2014	2013
Presented as asset	-	628
Presented as liability	14.997	55
Total	**-14.997**	**573**

7. Receivables from Group companies

	2014	2013
Receivables from group companies	45.000	30.000
Current	45.000	30.000
Non-current	-	-
	45.000	**30.000**

As of December 31, 2014 Aegon Schadeverzekering has a short term deposit with Aegon Levensverzekering in the amount of EUR 30 million. In addition, an amount of EUR 15 million is related to a short term deposit held with Aegon Derivatives N.V.

All loans are measured at amortized cost. It is assumed that the carrying amount of short-term loans and loans with a variable coupon interest rate is equal to fair value.

8. Reinsurance assets

	2014	2013
Non-life insurance	17.195	19.819
At December 31	**17.195**	**19.819**
Current	5.813	-
Non-current	11.382	19.819
	17.195	**19.819**

Amounts due from reinsurers in respect of claims already paid by Aegon Schadeverzekering on contracts that are reinsured are included in note 9.1 ‘Receivables.

Movements during the year in reinsurance assets

2014	Non-life insurance	Total
At January 1	19.819	19.819
Gross premiums and deposits	16.043	16.043
Changes in unearned premiums	-16.043	-16.043
Incurred related to current year	1.358	1.358
Release for claims settled prior years	-3.981	-3.981
At December 31	**17.195**	**17.195**

2013	Non-life insurance	Total
At January 1	12.760	12.760
Gross premiums and deposits	15.957	15.957
Changes in unearned premiums	-15.957	-15.957
Incurred related to current year	7.265	7.265
Release for claims settled prior years	-206	-206
At December 31	**19.819**	**19.819**

9. Other assets and receivables

	Note	2014	2013
Receivables	9.1	3.996	3.167
Accrued income	9.2	37.966	37.064
Total		**41.962**	**40.231**

9.1. Receivables

	2014	2013
Receivables from reinsurers	539	2.624
Investment debtors	65	166
Receivables from policyholders	3.232	378
Receivables from brokers and agents	151	-
Other	9	-
Total	**3.996**	**3.167**
Current	3.996	3.167
Non-current	-	-
Total	**3.996**	**3.167**

The carrying amounts disclosed reasonably approximate the fair values at year-end.

9.2. Accrued income

	2014	2013
Accrued interest	12.113	15.793
Prepaid expenses	224	-
Deferred acquisition expenses non-life insurance	25.629	21.271
At December 31	**37.966**	**37.064**

The account 'Accrued income' is classified entirely as current assets. The carrying amounts disclosed reasonably approximate the fair values at year-end.

10. Cash and cash equivalents

	2014	2013
Cash at bank and in hand	459	3.955
Short-term deposits	107.007	216.500
Money market investments	10.997	136.941
Total	**118.463**	**357.395**

The carrying amounts disclosed reasonably approximate the fair values at year-end. The collateral relates to securities lending and repurchase agreements and margins on derivatives transactions. A corresponding liability to repay the cash is recognized in other liabilities.

These cash items are not subject to restrictions.

11. Equity

	2014	2013
Share capital	30.858	30.858
Share premium	116.808	116.808
Revaluation reserves	47.050	12.628
Retained earnings	85.874	85.589
Total	**280.590**	**245.884**

11.1. Share capital

	2014	2013
Authorized share capital	50.000	50.000
Not issued	19.142	19.142
	30.858	**30.858**

The authorized share capital is EUR 50 million, divided into 50.000 shares of EUR 1.000 nominal value each, of which 30.858 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2014 and 2013, Aegon Schadeverzekering did not pay a dividend to Aegon Nederland N.V.

Under Dutch law, the amount that is available to pay dividends consists of equity less the outstanding share capital and reserves required by law. The insurance and banking regulator (DNB) restricts distributions of capital.

11.2. Revaluation reserves

	2014	2013
At January 1	12.628	29.081
Gross revaluation	60.169	-15.687
Net (gains) / losses transferred to income statement	-14.296	-6.532
Tax effect	-11.452	5.766
At December 31	**47.050**	**12.628**

The revaluation reserves for available-for-sale financial assets comprise unrealized gains and losses on these investments, net of tax. Upon sale of available-for-sale securities, the realized result is recognized through the income statement. In the event of impairments, the unrealized loss is recognized through the income statement.

For more information see note 2.12.5 “shadow accounting” and note 13 “insurance contracts”. There are restrictions on the distribution to shareholders of the revaluation reserve relating to financial instruments that are not actively traded or quoted.

12. Insurance contracts

	Note	2014	2013
Non-life insurance			
- Unearned premiums and unexpired risks	12.1	142.443	141.906
- Outstanding claims	12.1	980.471	912.944
- Incurred but not reported claims	12.1	294.425	334.343
Total insurance contracts		**1.417.340**	**1.389.193**

12.1. Non-life insurance

	2014	2013
Accident and health insurance	854.230	821.666
General insurance	563.109	567.527
Total	**1.417.340**	**1.389.193**

<u>Movements during the year in non-life insurance</u>

	2014	2013
At January 1	1.389.193	1.317.958
Gross premiums - existing and new business	734.010	729.805
Changes in valuation of expected future claims	-733.473	-747.441
Changes in incurred but not reported claims	-39.917	5.892
Unwind of discount / interest credited	9.837	9.527
Incurred related to current year	352.920	357.764
Incurred related to prior years	188.586	169.193
Release for claims settled current year	-189.487	-195.339
Release for claims settled prior years	-294.330	-258.167
Other	-	-
At December 31	**1.417.340**	**1.389.193**

Run off result	2014	2013
Accident and health insurance	54.694	12.963
General insurance	-5.772	-17.911
	48.922	**-4.948**

A net release from the non-life claims reserve is shown as a negative figure and a net addition as a positive figure.

Claims history in EUR million

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	Total
Estimated gross cumulative claims, before reinsurance											
Year-end financial year	514	542	522	471	479	479	505	462	427	419	
After 1 year	-	600	563	506	514	492	496	479	429	465	
After 2 years	-	-	547	494	494	473	457	442	384	419	
After 3 years	-	-	-	479	466	465	454	429	395	384	
After 4 years	-	-	-	-	482	469	440	416	373	373	
After 5 years	-	-	-	-	-	464	396	401	363	384	
After 6 years	-	-	-	-	-	-	395	381	354	381	
After 7 years	-	-	-	-	-	-	-	375	349	378	
After 8 years	-	-	-	-	-	-	-	-	345	376	
After 9 years	-	-	-	-	-	-	-	-	-	375	
Estimated cumulative claims	**514**	**600**	**547**	**479**	**482**	**464**	**395**	**375**	**345**	**375**	
Cumulative payments	-189	-365	-380	-362	-392	-389	-342	-330	-313	-352	
	325	**235**	**167**	**117**	**90**	**75**	**52**	**45**	**32**	**23**	**1.161**
Outstanding claims prior year (<2005)											114
Outstanding claims in financial statements (including IBNR)											**1.275**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	Total
Estimated net cumulative claims, after reinsurance											
Year-end financial year	513	535	518	471	479	478	501	462	427	419	
After 1 year	-	594	559	504	514	492	495	479	428	464	
After 2 years	-	-	544	492	492	471	455	442	383	418	
After 3 years	-	-	-	478	464	465	453	429	395	384	
After 4 years	-	-	-	-	480	469	439	416	373	373	
After 5 years	-	-	-	-	-	464	395	401	363	384	
After 6 years	-	-	-	-	-	-	393	381	354	381	
After 7 years	-	-	-	-	-	-	-	375	349	378	
After 8 years	-	-	-	-	-	-	-	-	345	376	
After 9 years										375	
Estimated cumulative claims	**513**	**594**	**544**	**478**	**480**	**464**	**393**	**375**	**345**	**375**	
Cumulative payments	-190	-365	-380	-362	-392	-389	-341	-330	-313	-352	
	323	**229**	**164**	**116**	**88**	**75**	**52**	**45**	**32**	**23**	**1.147**
Outstanding claims prior year (<2005)											111
Outstanding claims in financial statements (including IBNR)											**1.258**

13. Deferred tax

	2014	2013
Deferred tax liabilities	19.339	9.693
Total net deferred tax liability / (asset)	**19.339**	**9.693**

Movement in deferred tax

2014	Financial assets	Total 2014
At January 1	9.693	9.693
Charged to income statement	-1.806	-1.806
Charged to equity	11.452	11.452
Other	-	-
At December 31	**19.339**	**19.339**
Deferred tax assets	-	**-**
Deferred tax liabilities	19.339	**19.339**

2013	Financial assets	Total 2013
At January 1	15.507	15.507
Charged to income statement	-48	-48
Charged to equity	-5.766	-5.766
Other	-	-
At December 31	**9.693**	**9.693**
Deferred tax assets	-	**-**
Deferred tax liabilities	9.693	9.693

The deferred tax relates to financial assets.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority.

Deferred tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when, in the opinion of management, it is probable that they can be utilized.

All deferred taxes are non-current.

14. Other liabilities and accruals

	Note	2014	2013
Other liabilities	14.1	20.867	21.587
Total		**20.867**	**21.587**

14.1. Other liabilities

	2014	2013
Payables due to policyholders	3.844	1.471
Payables out of reinsurance	6.711	3.581
Investment creditors	-	331
Income tax payable	3.191	1.181
Current account with Aegon Nederland N.V.	3.021	11.305
Other creditors	4.099	3.718
Total	**20.867**	**21.587**
Current	20.137	21.587
Non-current	730	-
	20.867	**21.587**

The carrying amounts disclosed reasonably approximate fair value at year-end.

15. Premium income and premium to reinsurers

	2014		2013	
	Gross	Reinsurance	Gross	Reinsurance
Non-life	734.010	16.043	729.805	15.957
Total	**734.010**	**16.043**	**729.805**	**15.957**

16. Investment income

	2014	2013
Investment income related to general account	28.794	29.660
	28.794	**29.660**

Investment income consists of:

	2014	2013
Interest income out of:		
- Debt securities	14.956	16.647
- Loans	15.169	12.778
- Other investments	-1.510	69
Dividend income from shares	179	166
Total	**28.794**	**29.660**

Interest income accrued on impaired financial assets	358	390
Interest income on financial assets that are not carried at fair value through profit or loss	30.596	29.858

Investment income from financial assets held for general account:

	2014	2013
Available-for-sale	15.135	16.813
Loans	15.169	12.778
Derivatives	-1.981	-364
Other	470	433
Total	**28.794**	**29.660**

17. Results from financial transactions

	2014	2013
Net fair value change of general account financial investments FVTPL, other than derivatives	957	-
Realized gains / (losses) on financial investments	14.296	6.532
Net fair value change of derivatives	-251	-17
Net foreign currency gains / (losses)	-	-4
Total	**15.002**	**6.512**

Realized gains and losses on financial investments

	2014	2013
Debt securities and money market investments (AFS)	14.296	6.532
Total	**14.296**	**6.532**

Net fair value change of derivatives

	2014	2013
Ineffective portion of hedge transactions to which hedge accounting is applied	-78	-17
Fair value changes on economic hedges for which no hedge accounting is applied	-173	-
Total	**-251**	**-17**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2014	2013
Fair value change on hedging instruments in a fair value hedge	-15.797	573
Fair value change on hedged items in fair value hedge	15.720	-590
Ineffectiveness fair value hedge	**-78**	**-17**

18. Policyholder claims and benefits

	2014	2013
Claims and benefits paid to policyholders	483.816	453.506
Change in valuation of liabilities for insurance contracts	28.147	71.236
Total	**511.963**	**524.742**

19. Commissions and expenses

	2014	2013
Commissions	152.058	157.281
Employee expenses	24.152	23.104
Administration expenses	70.588	73.060
Total	**246.798**	**253.445**

Administration expenses

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. This allocation is examined each year.
The administration expenses do not include depreciation expenses.

Employee expenses

	2014	2013
Salaries	13.990	13.542
Post-employment benefit costs	3.005	2.947
Social security charges	1.968	1.652
Other personnel costs	5.189	4.962
Total	**24.152**	**23.104**

Employees

Aegon Schadeverzekering does not have employees. The salaries, social security contributions and pension contributions for staff working for Aegon Schadeverzekering, but employed by Aegon Nederland, are recharged to Aegon Schadeverzekering.

The assets and liabilities arising from employee benefits for staff working for Aegon Schadeverzekering are recognized in the financial statements of Aegon Nederland. Refer to the financial statements of Aegon Nederland for more information on the pension plan and the defined benefit liabilities. The pension cost charged (post-employment benefit costs) to Aegon Schadeverzekering are a fixed percentage of the salaries charged to the entity.

Remuneration Executive Board

The members of the Executive Board of Aegon Schadeverzekering are also members of the Executive Boards of the other entities within the Aegon Nederland Group, including the Executive Board of Aegon Nederland N.V. The members of the Executive Board are employees of Aegon Nederland N.V. and receive their remuneration via Aegon Nederland N.V. The table below represents the total remuneration for their activities within Aegon Nederland group. The amounts are in euros.

	2014	2013
Current Executive Board members		
Gross salary and social security contributions	3.156.386	2.304.026
Pension premium	550.958	411.950
Other benefits	108.765	99.398
Total	**3.816.109**	**2.815.375**

	2014	2013
Former Executive Board members		
Gross salary and social security contributions	-	78.136
Other benefits	-	395.000
Total	**-**	**473.136**
Total former and current directors	**3.816.109**	**3.288.510**

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. With respect to the total remuneration of the Executive Board of Aegon Nederland in 2014, 21% (2013: 24%) was allocated to the income statement of Aegon Schadeverzekering.

Mortgage loans Executive Board
On the reporting date, members of the Executive Board had mortgage loans totaling EUR 5,66 million from a company associated with Aegon Nederland (2013: EUR 5,74 million) at interest rates ranging from 1,7% variable to 4,6% in line with the terms and conditions available to the employees of Aegon Nederland. Repayments of EUR 75.000 were received in 2014 (2013: EUR 40.000).

Remuneration Supervisory Board
Members and former members of the Supervisory Board are regarded as key management personnel. Aegon Schadeverzekering has a Supervisory Board since November 2011, which is equal to the Supervisory Board of parent company Aegon Nederland.

The remuneration for the supervisory board members charged to Aegon Nederland N.V. in the financial year pursuant to Section 383:1 of Book 2 of the Netherlands Civil Code was EUR 134 thousand (2013: EUR 135 thousand). This remuneration consists entirely of gross pay and the employer's share of social security charges. The member of the Supervisory Board employed by Aegon N.V. did not receive any remuneration for his membership. No payments were made in connection with severance schemes; no remuneration or rights attaching to shares were granted.

The members of the Supervisory Board of Aegon Schadeverzekering do not receive additional remuneration for this task.

Mortgage loans Supervisory Board
On the reporting date, none of the supervisory board members had mortgage loans from a company associated with Aegon Nederland.

Remuneration Independent Auditor
PricewaterhouseCoopers Accountants N.V. has served as Aegon Schadeverzekering's independent public auditor during 2014 and audited these financial statements. The fees for services rendered to Aegon Schadeverzekering need not be disclosed in this Annual Report, based on article 382a.3 of Book 2 of the Netherlands Civil Code. The aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Accountants N.V. to the whole group of Aegon N.V. are disclosed in the Annual Report of Aegon N.V.

20. Impairment charges / (reversals)

	2014	2013
Impairment charges comprise:		
Financial assets AFS	81	-
Loans	179	153
Other	-	-
Total	**260**	**153**
Net impairment charges / (reversals)	**260**	**153**

21. Interest charges and related fees

	2014	2013
Short-term liabilities and deposits	287	1.192
Total	**287**	**1.192**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	287	1.192

22. Income tax

	2014	2013
Current tax		
- current year	1.868	-5.666
Deferred tax		
- origination / (reversal) of temporary differences	-1.806	-48
Income tax for the period (income) / charge	**62**	**-5.715**

Reconciliation between standard and effective income tax:

	2014	2013
Income before tax	347	-22.693
Income tax calculated using weighted average applicable statutory rates	87	-5.673
Difference due to the effects of:		
- non-taxable income	-25	-41
Income tax for the period (income) / charge	**62**	**-5.715**

The weighted average applicable statutory tax rate for Aegon Schadeverzekering in 2014 and 2013 was 25% and will remain the same in 2015.

	2014	2013
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation of available-for-sale investments	15.026	-4.133
Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments	-3.574	-1.633
	11.452	**-5.766**
Total income tax related to components of other comprehensive income	11.452	-5.766

23. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Aegon Schadeverzekering correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Aegon Schadeverzekering uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when Aegon Schadeverzekering determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place 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). Therefore, unobservable inputs reflect the own assumptions of Aegon Schadeverzekering about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Aegon Schadeverzekering employs an oversight structure over valuation of financial assets and liabilities that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of financial assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which Aegon Schadeverzekering has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

Mortgage loans
In 2014, Aegon updated the fair value calculation of its Dutch mortgage loans based on additional market observable data. This resulted in an increase in the discount rate used to present value the future cash flows, mainly driven by an increase in the cost of funds. The carrying value, at amortized cost, of Dutch mortgage loans on Aegon's balance sheet has not been impacted by the update of the fair value calculation. The adjusted market valuation had a negative impact on the Solvency I ratio. We remain committed to the quality of our mortgage portfolio and emphasize our continuous positive outlook for this asset class.

23.1. Fair value hierarchy

The table below provides an analysis of assets and liabilities recorded at fair value on a recurring basis by level of the fair value hierarchy.

2014	Level I	Level II	Level III	Total 2014
Assets carried at fair value				
AFS investments				
- Shares	-	-	7.032	7.032
- Debt securities	404.955	252.814	65.607	723.376
- Other	-	-	-	-
Equity method investments				
- Investments in investment funds	-	-	-	-
Real estate held for own use	-	-	-	-
FVTPL investments				
- Shares	-	300.912	-	300.912
- Debt securities	-	-	-	-
- Investments account policyholders	-	-	-	-
- Derivatives	-	-	-	-
- Investments in real estate			-	-
Total assets	**404.955**	**553.726**	**72.638**	**1.031.320**
Liabilities carried at fair value				
- Investment contracts account policyholders	-	-	-	-
- Derivatives	-	14.997	-	14.997
Total liabilities	**-**	**14.997**	**-**	**14.997**

2013	Level I	Level II	Level III	Total 2013
Assets carried at fair value				
AFS investments				
- Shares	-	-	7.046	7.046
- Debt securities	346.035	327.673	32.833	706.541
- Other	-	-	-	-
Equity method investments				
- Investments in investment funds	-	-	-	-
Real estate held for own use	-	-	-	-
FVTPL investments				
- Shares	-	-	-	-
- Debt securities	-	-	-	-
- Investments account policyholders	-	-	-	-
- Derivatives	-	628	-	629
- Investments in real estate			-	-
Total assets	**346.035**	**328.302**	**39.879**	**714.216**
Liabilities carried at fair value				
- Investment contracts account policyholders	-	-	-	-
- Derivatives	-	55	-	55
Total liabilities	**-**	**55**	**-**	**55**

Movements in Level III financial instruments measured at fair value

2014	As at 1-1-2014	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2014	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	7.046	-99	84	-	-	-	7.032	-
- Debt securities	32.833	124	-233	40.048	-6.947	-218	65.607	-
- Other	-	-	-	-	-	-	-	-
Equity method investments								
- Investments in investment funds	-	-	-	-	-	-	-	-
Real estate held for own use	-	-	-	-	-		-	
FVTPL investments								
- Shares	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
- Investments account policyholders	-	-	-	-	-	-	-	-
- Derivatives	-	-	-	-	-	-	-	-
- Investments in real estate	-	-		-	-		-	
Total assets	**39.879**	**26**	**-149**	**40.048**	**-6.947**	**-218**	**72.638**	**-**
Liabilities carried at fair value								
- Investment contracts account policyholders	-	-	-	-	-	-	-	-
- Derivatives	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

2013	As at 1-1-2013	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2013	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	6.200	-	846	-	-	-	7.046	-
- Debt securities	579	-	-203	32.765	-	-308	32.833	-
- Other	-	-	-	-	-	-	-	-
Equity method investments								
- Investments in investment funds	-	-	-	-	-	-	-	-
Real estate held for own use	-	-	-	-	-		-	
FVTPL investments								
- Shares	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
- Investments account policyholders	-	-	-	-	-	-	-	-
- Derivatives	-	-	-	-	-	-	-	-
- Investments in real estate	-	-		-	-		-	
Total assets	**6.779**	**-**	**643**	**32.765**	**-**	**-308**	**39.879**	**-**
Liabilities carried at fair value								
- Investment contracts account policyholders	-	-	-	-	-	-	-	-
- Derivatives	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The total gains / (losses) in the last column relate to the total income in the financial year during which the financial instrument was held as Level III instrument.

Significant transfers between levels

Aegon Schadeverzekering's policy is to record transfers of assets and liabilities between Level I, Level II and Level III at their fair values as of the beginning of each reporting period.

There were no significant transfers between Level I and Level II of the fair value hierarchy during 2014 and 2013.

Significant unobservable assumptions

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

2014	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	7.032	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	65.607	Broker quote	n.a.	n.a.	n.a.
Equity method investments					
Investments in investment funds	-	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Derivatives	-	Discounted cash flow	Mortality	n.a.	n.a.
Investments in real estate	-	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	-	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**72.638**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	-	Discounted cash flow	Credit spread	n.a.	n.a.
Total liabilities at fair value	**-**				

2013	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	7.046	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	32.833	Broker quote	n.a.	n.a.	n.a.
Equity method investments					
Investments in investment funds	-	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Derivatives	-	Discounted cash flow	Mortality	n.a.	n.a.
Investments in real estate	-	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	-	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**39.879**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	-	Discounted cash flow	Credit spread	n.a.	n.a.
Total liabilities at fair value	**-**				

* Not applicable (n.a.) has been included when no significant unobservable assumption has been identified and used.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As Aegon Schadeverzekering does not have level III assets or liabilities with unobservable input, no impact analysis has been made on the fair value measurements of changes in unobservable input.

Fair value information about assets and liabilities not measured at fair value

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

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivable, short-term liabilities, and accrued liabilities. These instruments are not included in the table below.

Furthermore, for certain financial instruments disclosed in the table below, the carrying amounts of reasonably approximate the disclosed fair values at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (n.a.).

In 2014, Aegon Nederland updated the fair value calculation of its Dutch mortgage loans based on additional market observable data. This resulted in an increase in the discount rate used to present value the future cash flows, mainly driven by an increase in the cost of funds.

Besides the valuation of the mortgages there have not been changes in valuation techniques used to measure the fair value of these assets and liabilities.

All of the instruments disclosed in the table are held at amortized cost.

2014	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	487.905	545.256	-	-	545.256	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	9.000	8.596	-	-	8.596	Discounted cash flow	-

2013	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	502.035	549.166	-	-	549.166	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	63	65	-	-	65	Discounted cash flow	-

23.1.1. Shares

When available, Aegon Schadeverzekering uses quoted market prices in active markets to determine the fair value of its investments in shares. Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Illiquidity adjustments are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

23.1.2. Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Schadeverzekering uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Schadeverzekering's valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process, Aegon Schadeverzekering assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services Aegon Schadeverzekering reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and reviewed for reasonableness. In addition, Aegon Schadeverzekering performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that Aegon Schadeverzekering can corroborate detailed information such as assumptions, inputs and methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third-party pricing services and brokers will use modeling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate.

Periodically, Aegon Schadeverzekering performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. The asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or un-priced securities. Additionally Aegon Schadeverzekering performs back testing on a sample basis. Back testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the price used for financial reporting and the transaction price are investigated to explain the cause of the difference and to adjust the models if necessary.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining the view of Aegon Schadeverzekering of the risk associated with each security. However, Aegon Schadeverzekering does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for its view of the risks associated with each security.

Aegon Schadeverzekering's portfolio of private placement securities (held at fair value under the classification of available-for-sale or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Aegon Schadeverzekering's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and an illiquidity premium to account for the illiquid nature of these securities. The illiquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the illiquidity premium for private placement securities to the overall valuation is insignificant.

Aegon Schadeverzekering's portfolio of debt securities can be subdivided in Sovereign debt, Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset backed securities (ABS), and Corporate bonds. Below relevant details in the valuation methodology for these specific types of debt securities are described.

Sovereign debt
When available, Aegon Schadeverzekering uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Schadeverzekering cannot make use of quoted market prices, market prices from indices or quotes from third-party pricing services or brokers are used.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS)
Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices and follows with making use of third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities of corroboration of the market prices. If no market prices are available Aegon Schadeverzekering uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is illiquidity premium which is embedded in the discount rate.

Corporate bonds
Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibility of corroboration of market prices when available. If no market prices are available, valuations are determined by a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Aegon Schadeverzekering starts by taking an observable credit spread from a similar bond of the given issuer, and then adjust this spread based on unobservable inputs. These unobservable inputs may include subordination, liquidity and maturity differences.

<u>Corroboration</u>
On a quarterly basis level classifications are assigned to all securities. Those securities that have been priced by non-binding broker quotes are classified level II/III at first instance and are corroborated in order to assign the proper level. Aegon Schadeverzekering compares the

received quote against all available other evidence. If differences between the price used to measure the security and two additional prices are within a 3% difference range a level II is assigned, otherwise the security is classified as being level III. If quotes were not to be corroborated and did not seem to reflect a fair value, measures are taken to get a more reliable valuation; these securities always classify as level III.

23.1.3. Mortgage loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Schadeverzekering, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics. The market rate is adjusted for expenses, liquidity, credit risk, prepayment rates and lapse assumptions.

The fair value of floating interest rate mortgage loans, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

23.1.4. Derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

Aegon Schadeverzekering normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[3] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Schadeverzekering or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

23.1.5. Money market and other short-term investment and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

[3] International Swaps and Derivatives Associations

23.2. Summary of financial assets and financial liabilities at fair value through profit or loss

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	2014		2013	
	Trading	Designated	Trading	Designated
Investments for general account	-	316.631	-	-590
Investments for account of policyholders	-	-	-	-
Derivatives with positive values	-	-	-	628
Total financial assets at FVTPL	**-**	**316.631**	**-**	**38**

	2014		2013	
	Trading	Designated	Trading	Designated
Investment contracts	-	-	-	-
Investment contracts for account of policyholders	-	-	-	-
Liabilities for guarantees		-		-
Derivatives with negative values	-	14.997	-	55
Total financial liabilities at FVTPL	**-**	**14.997**	**-**	**55**

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	2014		2013	
	Trading	Designated	Trading	Designated
Net gains and losses	-	706	-	-17

<u>Derivatives</u>
With the exception of derivatives designated as a hedging instrument, all derivatives held for general account and held for account of policyholders are included in the table above.

Changes in the fair value of financial liabilities designated at fair value through profit or loss were not attributable to changes in credit spread. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

24. Commitment and contingencies

24.1. Investments contracted

In the normal course of business, Aegon Schadeverzekering has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2015. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the statement of financial position

Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans.

Contracted purchases	2014	2013
Real estate	-	-
Shares	-	-
Debt securities	-	-
Private loans	-	-
Mortgage loans	-	-
Other	-	-

Contracted sales	2014	2013
Real estate	-	-
Shares	-	-
Debt securities	-	-
Private loans	-	-
Mortgage loans	839	980
Other	-	-

24.2. Other commitments and contingencies

Guarantees given	2014	2013
Standby letters of credit	6.587	6.103
Other guarantees	12.000	12.000

Aegon Schadeverzekering is part of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V. and consequently pays its share of the reinsurance premium and other expenses. The letters of credit shown above relate chiefly to the guarantee issued by Aegon Schadeverzekering for its share in the excess risk of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V.

In addition to the above guarantees, guarantees have been issued for compliance with contractual obligations such as investment mandates of investment funds.

24.3. Legal and arbitrary proceedings, regulatory proceedings and actions

Aegon Schadeverzekering and associates are involved in litigation in the ordinary course of business including claims for compensation of damage, penalties on top of the claims and class or group compensation. Aegon Schadeverzekering has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Schadeverzekering will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

25. Transfers of financial assets

Aegon Schadeverzekering does not have financial assets that have been transferred to another party in such a way that part or all of the transferred assets do not qualify for derecognition.

Aegon Schadeverzekering is not involved in security lending activities or repurchase agreements.

Furthermore Aegon Schadeverzekering does not have continuing involvement for derecognized financial assets that have been transferred in their entirety.

26. Related party transactions

Entities in the Aegon N.V. group carry out a range of transactions with each other. The main ones are described below.

Aegon Schadeverzekering had committed financing arrangements for EUR 100 million as at December 31, 2014 (2013: EUR 200 million) with Aegon Hypotheken, a group company of the parent Aegon Nederland. No calls were made on these committed internal facilities during 2013 and 2014. Aegon Schadeverzekering received a commitment fee of EUR 202 thousand from Aegon Hypotheken (2013: EUR 347 thousand).

Aegon Nederland provides Aegon Schadeverzekering with administrative support and facilities at cost. Total recharged personnel expenses in 2014 were EUR 24 million (2013: EUR 23 million). In addition overhead expenses of EUR 67 million (2013: EUR 70 million) were recharged.

Aegon Schadeverzekering has a short term deposit with Aegon Levensverzekering of EUR 30 million as at December 31, 2014 (2013: EUR 30 million); this deposit has an interest rate of -0,12% (2013: 0,18%).

Aegon Schadeverzekering participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Schadeverzekering uses to mitigate interest rate risk are concluded via Aegon Derivatives N.V. The intercompany short-term deposit with Aegon Derivatives N.V. for the required collateral was EUR 15 million as at December 31, 2014 (2013: EUR 0 million). The interest rate for this short-term deposit was 0,144%. These short-term deposits are accounted for in note 7 ‘Receivables from group companies’.

All financial transactions pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. At the end of the year, Aegon Schadeverzekering had a current account liability to Aegon Nederland of EUR 3.2 million (2013: EUR 11.3 million), see note 14 ‘Other liabilities and accruals’. In 2014, EUR 0.3 million (2013: 0.6 million interest income) of interest charge on the intercompany current account was recognized in the income statement.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. The recharge was EUR 1.5 million (2013: EUR 1.3 million).

Aegon Schadeverzekering is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Schadeverzekering is jointly and severally liable for all tax liabilities of the entire tax grouping.

Aegon Schadeverzekering offers products to its key management personnel on the same terms and conditions as for other members of staff of Aegon Nederland.

Aegon Schadeverzekering did not pay dividend to Aegon Nederland in 2013 and 2014

27. Events after the balance sheet date

There were no events after the balance sheet date that give further information on the situation pertaining on the reporting date.

The Hague, April 20, 2015

Supervisory Board	*Executive Board*
J.A.J. Vink	M.B.A. Keim
L. Jongsma	E.W. Koning
G.T. Kepecs	R.J. Spuijbroek
D. Terpstra	R.M. van der Tol
D.D. Button	M.E. Edixhoven

Other information

Provisions in the Articles of Association regarding profit appropriation

Profit shall be appropriated in accordance with Article 23 of the articles of association of Aegon Schadeverzekering N.V., which can be summarized as follows:

1. The Annual General Meeting is authorised to appropriate the profit as determined by adoption of the financial statements and to declare distributions, with due regard for the statutory restrictions.
2. Distributions on shares may only be made up to the amount of the distributable capital and reserves and, in the case of an interim distribution, if this requirement is met as evidenced by an interim statement of net assets pursuant to Section 2:105(4) of the Netherlands Civil Code. The company shall file the statement of net assets at the offices of the trade register within eight days of the day on which the resolution for distribution is announced.
3. The authority of the Annual General Meeting to declare a distribution shall apply to distributions from profits not taken to reserves and to distributions charged to any reserve, and to distributions on the adoption of the financial statements and to interim distributions.
4. A resolution to make a distribution shall not take effect until approved by the board. The board shall refuse to give approval if it knows or reasonably ought to know that following the distribution the company would be unable to continue paying its liabilities when due.

Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year as follows:

To be added to the retained earnings	285
Net result	**285**

This proposal has not yet been incorporated in the financial statements.

Independent auditor's report

Independent auditor's report

To: The annual general meeting of shareholders and supervisory board of
Aegon Schadeverzekering N.V.

Report on the financial statements 2014

Our opinion

In our opinion the financial statements give a true and fair view of the financial position of Aegon Schadeverzekering N.V. as at 31 December 2014 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying 2014 financial statements of Aegon Schadeverzekering N.V. ('the Company') based in The Hague. The financial statements comprise:

- the statement of financial position as at 31 December 2014;
- the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent from the Company in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA) and other relevant regulations.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ref.: e0352224

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates such as assets and liabilities arising from insurance contracts and the fair value of certain assets and liabilities that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits,
we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud. Furthermore, we addressed information technology general controls ('ITGCs') that are the policies and procedures used by the Company to ensure information technology ('IT') operates as intended and provides reliable data for financial reporting purposes.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to issue an opinion on the financial statements as a whole, taking into account the significance and/or risk profile of the Company's activities, the accounting processes and controls, and the industry in which it operates.

Also, we ensured that the audit team included the right skills and competencies which are needed for the audit of an insurer specialized in employee insurance products and property and casualty insurance. Accordingly, our audit team included industry expertise in non-life insurance, asset management as well as specialists including actuaries, IT auditors, treasury, tax and valuation specialists.

Materiality

The scope of our audit is influenced by our application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We established certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	€4,7 million
How we determined it	At the planning phase of our audit we performed a stakeholder analysis that identifies suitable benchmarks and thresholds for determining overall materiality for the statutory financial statements. Our evaluation of overall materiality has been based on applying 2% of equity, less revaluation reserves. This resulted in an overall materiality of €4,7 million.
Rationale for benchmark applied	Capital e.g. Solvency is the key measurement for policyholders, creditors and regulators. Accordingly, we use a percentage of the Company's equity, less revaluation reserves as a quantitative benchmark.

During the course of our audit we continuously reassess the appropriateness of the materiality levels, based on factors such as the financial performance of the Company, organizational changes and other changing risk factors, ongoing risk assessments, key audit findings and/or adjustments.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. For example, certain items, such as related party transactions, management remuneration disclosures and going concern disclosures are subject to lower materiality levels when planning and executing our audit procedures as they are of particular interest to the reader of the financial statements and may otherwise not be subject to audit procedures in the context of the company as a whole.

We evaluated misstatements identified during our audit exceeding a threshold of 5% of overall materiality, as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the audit committee of the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the matter***
Valuation of insurance contracts including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation *Refer to Note 2.11* 'Summary of *significant accounting policies-insurance contracts*' *and Note 12 'Insurance contracts'.* The Company has significant insurance contract liabilities stated at €1,417 million at 31 December 2014 representing 96% of the Company's total liabilities. For non-life contracts the insurance liability generally includes provisions for unearned premiums, unexpired risks, inadequate premium levels and outstanding claims. Consistent with the insurance industry, the Company uses various actuarial and statistical techniques, based on empirical or industry data and economic, demographic and other underwriting assumptions to support.. Liabilities for claims subject to periodic payment in particularly disability and other forms of income protection contracts are calculated using actuarial models consistent with those applied to life insurance products. Assumptions used for non-life insurance	We used our own actuarial specialists to assist us in performing our audit procedures. In particular, our audit focused on the actuarial or statistical models considered more complex and/or requiring significant judgement in the setting of assumptions. We evaluated the design and tested the operating effectiveness of internal controls over the actuarial process including management's determination and approval process for setting of economic and actuarial assumptions. We assessed the Company's validation of certain models considered higher risk by the Company as a result of complexity and/or magnitude. We also assessed and tested the internal controls over the Company's attribution analyses including estimated versus actual claim development patterns. We assessed the experience analyses performed by the Company in their assumption setting processes. Our assessments included challenging, as necessary, specified assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences. A key focus in this area has been on the future incidence and

Key audit matter	How our audit addressed the matter
liabilities relate to policy lapses, claims development, incidence & recovery rates, expenses and those used in the liability adequacy test. Furthermore, the valuation of certain non-life insurance contracts is affected by government regulations in particular regarding the (timeliness) disability assessment that leads to claims for the company from disability and workers compensation insurance.	recovery rates in disability and workers compensation insurance. We considered the appropriateness of judgements used, which may vary depending on the product and/or the specifications of the product and also the compliance of the applied models for example statistical techniques with the applicable accounting standards. Furthermore, we performed audit procedures to assure the accuracy and completeness of the data used in the the models and systems for calculating the insurance contracts liabilities. We tested the validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Company and industry experience and specific product features. We also assessed the adequacy of the disclosures.
Fair value of 'hard to value' financial instruments *Refer to Note 2.4 'Summary of significant accounting policies-investments' and Note 23 'Fair value of assets and liabilities''.* The Company's investment portfolio, including Investments for the account of policy holders and net derivative assets, amounts to €1,530 million. Quoted prices from liquid market sources can be obtained for a large portion of the portfolio. The area that involved significant audit effort and judgement was the valuation of illiquid instruments, which are valued based on models and assumptions that are not observable by third parties. These instruments are generally considered model based level II and level III investments as included in Note 23 'Fair value of assets and liabilities'. Our procedures considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortized cost on the balance sheet, but for which fair value is required to be disclosed.	We used our internal valuation specialists to assist us in performing our audit procedures. We assessed the design and tested the operating effectiveness of internal controls over the investments' process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management's review of valuations provided by external experts or data vendors. We assessed pricing model methodologies against industry practice and valuation guidelines. We performed our own independent price checks using external quotes where available for illiquid positions. We compared assumptions used against appropriate benchmarks and pricing sources, investigated significant differences and performed our own independent valuations where applicable. We evaluated the cash flow and other relevant testing performed by the Company in order to

Key audit matter	How our audit addressed the matter
The risk was not uniform for all investment types and was considered greatest for derivatives, mortgage loans, asset backed securities, unlisted debt and equity securities.	identify any impairment in relation to investments. We also assessed whether the Company's disclosures in the financial statements in relation to the valuation of investments are compliant with the relevant accounting requirements.
Transition as auditors including audit of opening balances Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include: • gaining an initial understanding of the Company and its business including its control environment and information systems, sufficient to make audit risk assessments and develop the audit strategy and plan; • obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and • communicating with the previous auditors.	Prior to becoming the Company's auditors in 2014, we developed a comprehensive transition plan starting in August 2013 to understand the connection between the Company's strategy, the related business risks and the way this impacts the Company's financial reporting and internal controls framework. Our transition plan included amongst others: • close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards; • active knowledge sharing with the Finance, Risk and Internal Audit functions to understand their perspectives on the business, (emerging) risks and key findings from their work; • attendance of formal clearance meetings with senior management and the audit committee during the Q3 2013 and Q4 2013 quarterly and year-end financial closing and reporting process; • evaluation of key accounting positions and audit matters from prior years. Review of management's control documentation to assist in obtaining an understanding of the Company's financial reporting and business processes; • introduction meetings with the Dutch Central Bank as the key regulator of the Company's insurance and banking operations. We discussed and agreed our audit plan with the parent Company's audit committee in May 2014 and we reported status, progress and key findings from our audit process on a quarterly basis.

Responsibilities of the executive board and the supervisory board

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code;
- the preparation of the executive board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code;
- such internal control as the executive board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going concern basis of accounting unless the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all errors and frauds. Therefore, our opinion provides reasonable assurance.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the executive board's report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the executive board's report and other information):

- we have no deficiencies to report as a result of our examination whether the executive board's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- we report that the executive board's report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of Aegon Schadeverzekering N.V. by the supervisory board following the passing of a resolution by the shareholders of its ultimate parent company to elect PwC as group auditor of Aegon N.V. at the annual meeting held on 15 May 2013. The audit 2014 was our first year's audit.

Amsterdam, 21 April 2015
PricewaterhouseCoopers Accountants N.V.

Original has been signed by E.L. Rondhout RA

Appendix to our auditor's report on the financial statements 2014 of Aegon Schadeverzekering N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board;
- concluding on the appropriateness of the executive board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee of the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the audit committee of the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of doing so. A precondition is that the Company has not publicly disclosed information about the matter.