Annual report 2014

Aegon Hypotheken B.V.

Aegon Hypotheken B.V.
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Contents

Report of the Executive Board	6
Consolidated financial statements 2014 of	14
Aegon Hypotheken B.V.	14
Consolidated statement of changes in equity	18
Notes to the consolidated financial statements	21
Financial Statements 2014 of Aegon Hypotheken B.V.	70
Statement of financial position	71
Income statement	72
Notes to the financial statements	73
Other information	78
Independent auditor’s report	79

Annual report 2014

Report of the Executive Board

General

Aegon Hypotheken B.V., incorporated and domiciled in the Netherlands, is a private limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague at its registered address at Aegonplein 50, 2591 TV The Hague. Aegon Hypotheken B.V. ('Aegon Hypotheken') is a 100% subsidiary of Aegon Nederland N.V., which is a wholly-owned subsidiary of Aegon N.V. Aegon N.V. is the head of the group.

Aegon Hypotheken grants mortgages to Dutch consumers. It also obtains the funding it needs to finance those loans from companies in the Aegon group (internal funding), through financing agreements with professional parties outside the Aegon group (external funding) and by financing transactions on the capital market (securitizations).

Vision, strategy, objectives

In recent years and again in 2014, the parent company of Aegon Hypotheken, 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.

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 Nederland 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 Nederland to differentiate itself from its competitors.

CRM system implementation (Salesforce)

Aegon Nederland 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

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.

<u>Regulation on the financial sector oath or promise</u>

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.

<u>Gender diversity (article 2:166 Dutch Civil Code)</u>

The Executive Board of Aegon Hypotheken 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.

<u>New independent auditor</u>

Aegon Nederland, including Aegon Hypotheken, 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.

Financing

Aegon Hypotheken's aim is to have access to a diversified financing pallet. A distinction can be drawn between temporary and structural financing and between committed and uncommitted financing.

Temporary financing is bridging financing for the period until Aegon Hypotheken has a mortgage portfolio, which is of a size and quality that it can efficiently enter into structural financing. This temporary form of financing currently comes from uncommitted bilateral financing agreements and committed financing agreements with Aegon and non-Aegon parties.

Uncommitted financing involves financing contracts between various Aegon entities and Aegon Hypotheken. Committed financing takes place in a 'warehouse' structure, for which a special purpose entity ('SPE'), Aegon Hypotheken Financiering B.V. ('Aegon Hypotheken Financiering'), has been incorporated. This entity is consolidated in Aegon Hypotheken. As per year end 2014, Aegon Hypotheken Financiering consisted of five compartments and Aegon Hypotheken can receive financing up to a set maximum through each compartment if it places mortgages that meet pre-agreed conditions in that compartment.

Once Aegon Hypotheken has a portfolio of mortgages that can attract efficient structural financing, it can arrange this in various ways such as securitizations, private transactions or similar arrangements.

Course of events during the financial year

The mortgage market

In 2014 , the mortgage sales increased 33% to EUR 48.5 billion, making it the best year for the mortgage market since 2011. The volume is still significantly lower than in the years 2009-2011 (EUR 60-65 billion) and remains a fraction of sales in 2006 (EUR 126 billion). The low mortgage rates and the possibility of tax- free donations are important factors explaining the strong recovery . The exemption of a grant of up to EUR 100,000 - provided this money was used for a house- ran until the end of 2014. This explains in large part the very strong 4th quarter. The mortgage sales in this quarter (EUR 16.4 billion) is the highest since Q4 2010 and 43 % higher than the already very good 4th quarter of 2013.

The total number of mortgages sold has also increased significantly, by 31% to 223,000. This growth is slightly lower than the growth in volume, by an increase in the average mortgage volume increased more than the numbers. The number of houses sold in the purchasing market (starters and movers , so exclusive 'valves') increased by nearly 50,000 increased compared to 2013. As a result, the purchase market is experiencing the best year since 2008. The number of valves in the 4th quarter increased by 43 % compared to the 3rd quarter. This is obviously a significant increase, but the total number of valves is still very limited.

House prices have risen at an annual rate of 3.9%. In the development of housing prices are clearly differences between different housing types and regions.

The changes in the top 10 lenders in the Dutch mortgage market is limited. There are no changes in the top 4 : Rabobank, ING, ABN Amro Bank and Aegon are still the greatest lenders; the Aegon market share raised compared to 2013 with another 0,8% to 11,1%.

Mortgage loans

Mortgage production of Aegon Hypotheken shows good results compared to 2013, mainly driven by mortgage production for fee based business. The mortgage production for fee business increased to more than EUR 2.1 billion in 2014. The mortgage production for own account was EUR 2.7 billion.

During 2014, Aegon Hypotheken granted EUR 4.8 billion of mortgages, including EUR 1.8 billion for the account and risk of the Dutch Mortgage Fund, managed by Aegon Investment Management, and EUR 274 million for account and risk of third parties. Most of the mortgages granted are covered by the Dutch National Mortgage Loan Guarantee scheme.

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. We remain committed to the quality of our mortgage portfolio and emphasize our continuous positive outlook for this asset class.

Financing transactions

All financing contracts, which were in place at the start of 2014, were renewed during the financial year and a fifth compartment was added to Aegon Hypotheken Financiering during the year. The maximum credit available from external financing was EUR 2,136 million on 31 December 2014.

At 31 December 2014, EUR 1,214 million had been borrowed, mostly in internal uncommitted contracts, from funding providers. Funds were also borrowed through the committed financing facilities referred to above. At 31 December 2014, Aegon Hypotheken had sufficient unused committed financing facilities to meet its liquidity policy.

As noted above, the new Dutch Mortgage Fund introduced during 2013 and specially designed to provide third-party funded mortgages in cooperation with Aegon Investment Management, is very successful. This Dutch Mortgage Fund offers institutional investors the ability to invest in Dutch mortgages granted by Aegon Hypotheken for the account and risk of the Dutch Mortgage Fund. The fund pays Aegon Hypotheken a fee for granting and managing the mortgages. This 'fee business' supplements the existing business model. In 2014, Aegon Hypotheken originated mortgage loans for account and risk of the Dutch Mortgage Fund for a total amount of EUR 1.8 billion (2013: EUR 530 million).

On March 14, 2014 and October 10, 2014, Aegon Hypotheken sold class A residential mortgage backed securities (RMBS) to a broad group of institutional investors amounting to EUR 1.5 billion ('SAECURE 14 NHG') and EUR 1.4 billion ('SAECURE 15'). These securities are collateralized by prime Dutch residential mortgage loans originated and serviced by Aegon Levensverzekering and Aegon Hypotheken, which are both 100% subsidiaries of Aegon Nederland N.V.

In August 2014, Aegon Hypotheken made a commitment with an external party to sell a portfolio of mortgage loans for a maximum amount of EUR 500 million, where all risks and rewards of these mortgage loans are borne by the external party from the moment of origination. It concerns mortgage loans, which fulfill contractual eligibility criteria and have been originated after the commitment was made. At the end of 2014 EUR 274 million was sold to this external party.

Transition to EU 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 Hypotheken were prepared in accordance with article 2: 362.8 of the Netherlands Civil Code. For the impact of this transition on reported financial position, equity, comprehensive income, net income and cash flows, we refer to paragraph 2.1.1.

Results and performance

The income before tax in 2014 was a profit of EUR 32 million, which is EUR 67 million lower compared to 2013. This decline was mainly due to a lower result on financial transactions of EUR 79 million, partly compensated by a higher net interest income of EUR 10 million, higher fee and commission income of EUR 1 million and lower impairment charges of EUR 1 million.

The lower result on financial transactions is mainly due to the negative result on derivatives used to hedge the interest rate risk on mortgage loans, which are not included in the hedge relationship used for hedge accounting.

Information on the financial position and liquidity

In 2014, Aegon Hypotheken's equity rose by EUR 24 million from EUR 198 million to EUR 222 million, entirely as a result of the profit for 2014 after tax. Aegon Hypotheken had a sufficient liquidity position during 2014.

Code of conduct

In 2013, the Dutch Association of Insurers (Verbond van Verzekeraars) and the Dutch Banking Association (NVB) revised the Code of Conduct for Mortgage Financing in consultation with the Ministry of Finance and the Netherlands Authority for the Financial Market (AFM)s. The most recent code of conduct came into force on 1 August 2011 and has led to further protection of consumers against over-borrowing; a number of acceptance criteria have been adopted in a temporary scheme with effect from 2013. Aegon Hypotheken endorses the code of conduct.

Principal risks and uncertainties

For an insurer and provider of Dutch mortgage loans, 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 Hague we have had a play performed about Alzheimer's disease.

Employees

Aegon Hypotheken itself does not have employees, but is serviced by Aegon Nederland.

Outlook

Outlook in general
The measures on the housing market will have considerable consequences for the mortgage market itself, customers and our operations. It is still the question if the brittle recovery of the economy, the housing market and 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. 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 company's agenda, taken into account the economic conditions and the situation in the financial markets.

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%. Dutch mortgages have a much higher 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 date

There are no events after the balance sheet date that are of material consequences for Aegon Hypotheken'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, July 22, 2015

The Executive Board,

M.B.A. Keim

M.J. Edixhoven

E.W. Koning

R.J. Spuijbroek

R.M. van der Tol

Consolidated financial statements 2014 of

Aegon Hypotheken B.V.

Consolidated statement of financial position

	Note	31-12-2014	31-12-2013	1-1-2013
Amounts in EUR thousand				
Assets				
Loans	5	3.200.270	1.461.865	1.234.564
Derivatives	6	578.273	66.153	1.998
Long-term loans and group loans	7	1.178.152	8.150	62.150
Deferred tax assets	12	-	10.229	15.468
Other assets and receivables	8	516.882	649.125	307.689
Cash and cash equivalents	9	115.531	17.086	20.749
Total assets		**5.589.108**	**2.212.608**	**1.642.619**
Equity and liabilities				
Equity	10	221.758	197.722	123.135
Group equity		**221.758**	**197.722**	**123.135**
Derivatives	6	854.248	58.784	57.929
Long-term borrowings and group loans	11	4.443.305	1.942.003	1.410.923
Deferred tax liabilities	12	2.839	-	-
Other liabilities and accruals	13	66.958	14.098	50.633
Total liabilities		**5.367.350**	**2.014.886**	**1.519.485**
Total equity and liabilities		**5.589.108**	**2.212.608**	**1.642.619**

The 2012 result and the amounts at January 1, 2013 have been restated for a prior period error as disclosed in note 2.1.1.

Consolidated income statement

	Note	2014	2013
Amounts in EUR thousand			
Income			
Interest income	14	68.998	52.167
Interest charges and related fees	19	-15.778	-9.495
Net interest income		**53.220**	**42.672**
Fee and commission income	15	1.228	60
Results from financial transactions	16	-5.734	74.207
Total income		**48.714**	**116.939**
Expenses			
Commissions and expenses	17	16.520	16.742
Total operating expenses		**16.520**	**16.742**
Impairment charges / (reversals)	18	**146**	**747**
Income / (loss) before tax		**32.048**	**99.450**
Income tax	20	-8.012	-24.862
Net income / (loss)		**24.036**	**74.588**
Net income / (loss) attributable to the parent company		**24.036**	**74.588**

Consolidated statement of comprehensive income

	Note	2014	2013
Amounts in EUR thousand			
Net income		**24.036**	**74.587**
Items that will not be reclassified to profit or loss:			
Income tax relating to items that will not be reclassified		-	-
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments		-	-
Gains / (losses) on revaluation of investments in investment funds		-	-
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments		-	-
Income tax relating to items that may be reclassified		-	-
Other		-	-
Total other comprehensive income for the period		**-**	**-**
Total comprehensive income / (loss)		**24.036**	**74.587**
Total comprehensive income attributable to the parent company		**24.036**	**74.587**

Total comprehensive income is fully attributable to Aegon Nederland, the parent company of Aegon Hypotheken.

Consolidated statement of changes in equity

Amounts in EUR
thousand

2014

	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
At January 1	18	20.000	-	177.704	197.722
Net income / (loss) recognized in the income statement	-	-	-	24.036	24.036
Other comprehensive income / (loss)	-	-	-	-	-
Total comprehensive income / (loss)	**-**	**-**	**-**	**24.036**	**24.036**
Dividends paid on common shares	-	-	-	-	-
At December 31	**18**	**20.000**	**-**	**201.740**	**221.758**

2013

	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
At January 1	18	20.000	-	103.117	123.135
Net income / (loss) recognized in the income statement	-	-	-	74.587	74.587
Other comprehensive income / (loss)	-	-	-	-	-
Total comprehensive income / (loss)	**-**	**-**	**-**	**74.587**	**74.587**
Dividends paid on common shares	-	-	-	-	-
At December 31	**18**	**20.000**	**-**	**177.704**	**197.722**

Consolidated cash flow statement

Amounts in EUR thousand	Note	2014	2013
Income / (loss) before tax		**32.048**	**99.450**
Results from financial transactions	16	5.734	-74.207
Amortization and depreciation		13.906	-47
Impairment losses / (reversals)	18	146	747
Adjustments of non-cash items		**19.786**	**-73.507**
Accrued expenses and other liabilities		371.097	-56.946
Accrued income and prepayments		-185.994	-395.375
Changes in accruals		**185.103**	**-452.321**
Purchases/sales of investments		-1.593.932	-178.827
Disposal of investments		121.071	45.393
Disposal of derivatives		-1.986	-9.308
Net chnage in cash collateral		-298.150	-
Net purchase of money market investments		-	-
Cash flow movements on operating items not reflected in income		**-1.772.997**	**-142.742**
Tax (paid) / received		5.055	-19.623
Other		-	-
Net cash flows from operating activities		**-1.531.005**	**-588.743**

	Note	2014	2013
Disposal of intangible assets			
Disposal of subsidiaries, joint ventures and associates, net of cash		-	-
Other			
Net cash flows from investing activities		**-**	**-**
Changes in long-term borrowings and group loans		2.501.302	585.080
Changes in long-term loans and group loans		-871.852	-
Dividends paid		-	-
Net cash flows from financing activities		**1.629.450**	**585.080**
Net increase / (decrease) in cash and cash equivalents		**98.445**	**-3.663**
Cash and cash equivalents at the beginning of the year		17.086	20.749
Cash and cash equivalents at the end of the year	9	**115.531**	**17.086**

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	69.998	57.708
Interest paid	24.401	21.665
Dividend received	-	-

Notes to the consolidated financial statements

1. General information

Aegon Hypotheken B.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 Hypotheken is a 100% subsidiary of Aegon Nederland N.V. in The Hague. Aegon Hypotheken ’s ultimate holding company is Aegon N.V. in The Hague.

Aegon Hypotheken and its group companies make direct offers of and service mortgages to Dutch consumers. They also obtain the funding they need to finance those loans from companies in the Aegon group (internal funding) and through financing agreements with professional parties outside the Aegon group (external funding).

2. Summary of significant accounting policies

2.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.

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 Hypotheken were prepared in accordance with article 2: 362.8 of the Netherlands Civil Code. The transition to EU IFRS in 2014 did not affect the reported financial position, equity, comprehensive income, net income and cash flows, but had a some small impact on the presentation of the figures. Accordingly, the comparable amounts have been adjusted.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2014 is provided below.

The consolidated financial statements are prepared in euro’s and all values are rounded to the nearest million, 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, 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 consolidated financial statements of Aegon Hypotheken were approved by the Executive Board on July 22, 2015. The financial statements are put to the Annual General Meeting of Shareholders on July 22, 2015 for adoption. The shareholders’ meeting can decide not to adopt the financial statements but cannot amend them.

2.1.1 *Restatement of prior period errors*

In 2014 a tax error of EUR 15 million occurred, which was related to a transaction in 2012. Because this can be seen as a material error, Aegon Hypotheken restated the profit- and loss account for 2012 and the equity as per 1-1-2013 for this amount. As a result, the equity as per 1-1-2013 decreased by EUR 15 million and the net income in 2012 decreased by EUR 15 million.

Amounts x EUR 1.000	
Equity as per 1-1-2103 according to 2013 Annual Accounts based on Dutch GAAP	138.267
Correction of a prior year error	-15.133
Adjusted equity as per 1-1-2013 based on Dutch GAAP	123.134
Net income 2013 based on Dutch GAAP	74.588
Adjustment to 2013 net income due to transition to EU IFRS	0
Adjusted equity as per 31-12-2013 based on EU IFRS	197.722
Net income 2014 based on EU IFRS	24.036
Equity as per 31-12-2014 based on EU IFRS	**221.758**

2.2 Basis of consolidation

2.2.1 *Subsidiaries*

The consolidated financial statements include the financial statements of Aegon Hypotheken and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Hypotheken has control. Aegon Hypotheken controls an entity when Aegon Hypotheken is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assessment of control is based on the substance of the relationship between Aegon Hypotheken and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the accounting principles of Aegon Hypotheken, which is consistent with IFRS. Intra-group transactions are eliminated. Intra-group losses are eliminated, except to the extent that the underlying asset is impaired. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the share of Aegon Hypotheken in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair value of the assets, liabilities and contingent liabilities acquired in the business combination has been determined provisionally, adjustments to these values resulting from the emergence of new evidence within twelve months after the acquisition date

are made against goodwill. Contingent consideration is discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent consideration given in a business combination are recognized in the income statement.
The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

2.3 Foreign exchange translation

Aegon Hypotheken's financial statements are presented in euro's, which is Aegon Hypotheken's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Aegon Hypotheken 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.

2.4 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon Hypotheken 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.

2.5 Investments

Investments comprise financial assets (excluding derivatives).

2.5.1 Financial assets, excluding derivatives

Financial assets (excluding derivatives) are recognized on the trade date when Aegon Hypotheken 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 Hypotheken; 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 Hypotheken 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 Hypotheken 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. Accrued interest to date is recognized separately as "Other assets and receivables".

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 Hypotheken 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 Hypotheken 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.

2.6 Derivatives

2.6.1 Definition

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, Aegon Hypotheken considers the similarity of the characteristics of the embedded derivative and the host contract.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

2.6.2 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.

2.6.3 Hedge accounting

As part of its asset liability management, Aegon Hypotheken 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 Hypotheken 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 Hypotheken 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).

2.7 Other assets and receivables

Other assets and receivables include trade and other receivables, prepaid expenses and accrued interest to date.

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

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.

2.9 Impairment of loans

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 and financial 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 Hypotheken'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.

2.10 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.

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 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 Hypotheken's obligation under the contract expires or is discharged or cancelled.

2.12 Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

2.13 Assets and liabilities relating to employee benefits

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

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 Hypotheken 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 Hypotheken 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 Hypotheken'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 Hypotheken 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 Interest 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.

2.18 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.

2.19 Results from financial transactions

Results from financial transactions include:

2.19.1 Realized gains and losses on financial investments

Gains and losses on financial investments include realized gains and losses on financial assets, other than those classified as at fair value through profit or loss.

2.19.2 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.

2.20 Commission and expenses

Commission, staff and administration expenses incurred are allocated to the period to which they relate.

2.21 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.

2.22 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.

2.23 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 of estimates

In Q4 2014 Aegon Hypotheken 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 3.4 million on income before tax.

3.3 Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken, 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.

3.4 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 Hypotheken 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 Hypotheken 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.

3.5 Recognition of provisions

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

4. Risk management

4.1 Governance

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 Enterprise Risk Management Framework of Aegon N.V. The risk management function has been designed with specific attention to operational, financial and underwriting risks. Risk management principles and policies are embedded in the whole organization.

4.2 Product information

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

4.2.1 Mortgages

Aegon Hypotheken offers mortgage loans to Dutch citizens with a mortgage right on real estate, an apartment right or a long lease situated in the Netherlands. The mortgage loans comprises of one of more loan types, like an Interest Only Mortgage, (Bank) Savings Mortgage, Annuity Mortgage, (Universal) Life Mortgage etc. Almost all loans are sold through the intermediary channel, whereby strict standards and requirements are applied for these intermediaries. The mortgage underwriting is done by Aegon Hypotheken according to the Dutch insurance Code of Conduct. This code, endorsed by Aegon Nederland as well as most other participants on the mortgage market, provides guidelines and best practices in terms of transparency, information to clients, suitability, as well as underwriting criteria.

The profit margin on mortgage loans consist of a spread between the client coupon and the funding rate, including risk spreads and cost spreads. The risk and cost spreads are added to the funding rate to cover the various risks related to the mortgage loans, like prepayment risk, credit risk and offer risk. The cost spreads are included to cover the various costs related to mortgage loans, like the cost of servicing the mortgage.

4.3 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, 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.

Aegon Hypotheken's statement of financial position is subjected to stress tests involving hypothetical scenarios in accordance with a stress testing framework. Management uses the outcomes of these "what if?" scenarios to manage Aegon Hypotheken's risks exposure and capital position. The models, scenarios and assumptions are regularly reviewed and, where necessary, updated. The effects of hypothetical financial shocks on net income and equity, the statement of financial position, solvency and liquidity are reviewed against the limits set. Adjustments are made when potential effects exceed or threaten to exceed these limits. Aegon Hypotheken does not have external capital requirements. Internal capital requirements are not represented by fixed financial ratio's. Aegon Hypotheken performs stress testing with no limitations on the resulting capital. Capital under management is the same amount presented in equity in the financial statements. Aegon Hypotheken does not use any alternative measures.

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.

4.3.1 IFRS sensitivities

Results of Aegon Hypotheken'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 Hypotheken'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 Hypotheken'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 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 Hypotheken'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 Hypotheken'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 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.

4.3.2 Currency exchange rate risk

Aegon Hypotheken faces limited currency exchange risk on policies denominated in a currency other than the euro. Currency risk in the investment portfolios is managed using asset liability matching principles and hedged as far as possible.

4.3.3 Interest rate risk

Aegon Hypotheken is exposed to interest rate risk since many of the mortgages it grants are fixed rate, while the financing contracts are based on floating rates. Aegon Hypotheken's policy is that this interest rate risk must be limited on market consistent principles and it uses financial derivatives to hedge the net interest rate risk that arises from its investments and obligations. The use of derivatives is governed by the Aegon Group's Derivatives Use Policy.

For more information on derivatives, see note 4.3.10 'Derivatives risk'.

<u>Interest rates at the end of each of the last five years</u>

	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%

<u>Sensitivity of interest rates</u>
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. Although the interest risk is hedged by derivatives,

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

increases in interest rates will have a positive effect on shareholders' equity and a positive impact on net income, as part of the derivatives are not included in the hedge accounting relationship. From economic perspective there is no impact on net income and equity.

	2014		2013	
Parallel movement of yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	12.780	12.780	20.851	20.851
Shift down 100 basis points	-12.780	-12.780	-20.851	-20.851

The sensitivity of net income for parallel shifts in the yield curves remains limited.

4.3.4 Credit risk

Aegon Hypotheken invests in mortgage loans and bears the investment risk that the contract party will not repay the principal and interest due on the mortgage loan.

Aegon Hypotheken is exposed to credit risk on loans, mainly mortgage loans, and over-the-counter derivatives. It is possible that mortgage loans will be unable to meet their financial obligations for various reasons such as bankruptcy, unemployment or divorce. A period of excessive defaults or other declines in the value of these mortgage loans could have a strongly adverse effect on Aegon Hypotheken's operations, operating results and financial position.

Aegon Hypotheken mitigates the credit risk in derivative contracts with collateral and by using International Swaps and Derivatives Association (ISDA) agreements. The fair value of the derivatives is adjusted to the credit risk based on observable market spreads.

The table that follows shows the maximum exposure of Aegon Hypotheken to credit risk from investments in financial assets as well as derivatives, collateral held and net exposure. Please refer to note 22 and 23 for further information on capital commitments and contingencies and on assets pledged, which may expose Aegon Hypotheken to credit risk.

Positions for assets 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	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-
Mortgage loans *)	3.170.542	2.285	-	3.097.449	182.870	-	-433.411	2.849.192	321.350
Private loans	29.724	-	-	-	-	-	-	-	29.724
Other loans	4	-	-	-	-	-	-	-	4
Other financial assets	-	-	-	-	-	-	-	-	-
Investments in inv. funds	-	-	-	-	-	-	-	-	-
Derivatives with pos. values	578.273	-298.150	-	-	-	854.248	-	556.098	22.175
Reinsurance assets	-	-	-	-	-	-	-	-	-
Total	**3.778.543**	**-295.865**	**-**	**3.097.449**	**182.870**	**854.248**	**-433.411**	**3.405.290**	**373.253**

*) The net exposure of the mortgage loans is after the adjustment as a result of hedge accounting. Excluding this adjustment, the net exposure of the mortgage loans as per 31-12-2014 was +/+ EUR 149 million.

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	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-
Mortgage loans *)	1.457.822	1.508	-	1.499.177	132.217	-	-156.604	1.476.297	-18.476
Private loans	4.043	-	-	-	-	-	-	-	4.043
Other loans	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Investments in inv. funds	-	-	-	-	-	-	-	-	-
Derivatives with pos. values	66.153	-	-	-	-	58.784	-	58.784	7.369
Reinsurance assets	-	-	-	-	-	-	-	-	-
Total	**1.528.018**	**1.508**	**-**	**1.499.177**	**132.217**	**58.784**	**-156.604**	**1.535.081**	**-7.064**

*) The net exposure of the mortgage loans is after the adjustment as a result of hedge accounting. Excluding this adjustment, the net exposure of the mortgage loans as per 31-12-2013 was +/+ EUR 29 million.

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 Hypotheken 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 Hypotheken 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.

Aegon Hypotheken receives cash collateral on positive OTC derivative positions and pays cash collateral on negative OTC derivative positions. See note 23 'Transfers of financial assets' for more information.

4.3.5 Credit rating

As Aegon Hypotheken invest mainly in mortgage loans, almost all of the assets of Aegon Hypotheken are not rated.

4.3.6 Credit risk concentration

The tables that follow presents specific credit risk concentration information for the financial assets.

Credit risk concentration – mortgage loans

	2014	2013
Agricultural	-	-
Apartment	401.514	185.782
Office	-	-
Retail	-	-
Other commercial	1.320	1.231
Residential	2.767.707	1.270.809
Total	**3.170.542**	**1.457.822**
Of which past due and / or impaired assets	24.908	13.868

Fair value of the mortgage loan portfolio:	2014	2013
Fair value mortgage loans	3.483.712	1.777.562
The LTV was approximately	90,2%	98,5%
The part of the portfolio that is government guaranteed	69,8%	71,9%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,3%	0,4%
Impairments during the year	146	747

4.3.7 Inflation risk

Aegon Hypotheken has limited exposure to inflation risk.

4.3.8 Past due and impaired financial assets

The tables that follow provide information on past due or impaired financial assets for Aegon Hypotheken. 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 Hypotheken 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:

Impaired financial assets

	2014	2013
Mortgage loans	24.571	13.625
Other	3	-
Total	**24.574**	**13.625**

The increase in carrying amount of the mortgage loans is mainly caused by higher volumes.

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 1.2 million (2013: EUR 0.7 million).

Past due but not impaired financial assets

2014	0-6 months	6-12 months	> 1 year	2014
Mortgage loans	337	-	-	337
Private loans	-	-	-	-
Other loans	-	-	4	4
Derivatives	-	-	-	-
Accrued interest	-	-	-	-
Total	**337**	**-**	**4**	**341**

2013	0-6 months	6-12 months	> 1 year	2013
Mortgage loans	243	-	-	243
Private loans	-	-	-	-
Other loans	-	-	-	-
Derivatives	-	-	-	-
Accrued interest	-	-	-	-
Total	**243**	**-**	**-**	**243**

4.3.9 Equity market risk and other investments risk

Aegon Hypotheken has no exposure to equity markets.

4.3.10 *Derivatives risk*

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

Aegon Hypotheken 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.

4.3.11 *Liquidity risk*

Liquidity risk is inherent in much of Aegon Hypotheken's activity. Each asset and liability has its own liquidity characteristics. Most assets and liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement. However, most of the assets of Aegon Hypotheken are mortgage loans, which are not highly liquid. If Aegon Hypotheken 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.

Investments in less liquid assets, such as mortgage loans, 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. 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 Hypotheken 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;
- 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 Hypotheken'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

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 Hypotheken had sufficient liquidity in different scenarios and for all tested periods at year-end 2014. Aegon Hypotheken'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 Hypotheken 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 Hypotheken 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	-	1.582.097	1.751.966	1.109.242	-	4.443.305
Savings deposits and investment contracts	-	-	-	-	-	-
Other financial liabilities	4.425	62.533	-	-	-	66.958
Total	**4.425**	**1.644.630**	**1.751.966**	**1.109.242**	**-**	**4.510.263**

2013	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2013
Long-term loans and group loans	-	1.310.000	632.003	-	-	1.942.003
Savings deposits and investment contracts	-	-	-	-	-	-
Other financial liabilities	1.598	12.501	-	-	-	14.098
Total	**1.598**	**1.322.501**	**632.003**	**-**	**-**	**1.956.101**

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	-	27.873	94.041	236.837	351.859	710.610
Cash outflows	-	-73.146	-212.878	-343.180	-396.812	-1.026.017

2013	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2013
Cash inflows	-	32.964	242.845	445.989	426.549	1.148.348
Cash outflows	-	-61.250	-286.809	-410.240	-380.369	-1.138.668

4.3.12 Other risks

Legislation and regulation

Aegon Hypotheken's activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation may affect Aegon Hypotheken's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Hypotheken'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.

Aegon Hypotheken 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 Hypotheken's operations, operating results and financial position.

5. Loans

2014	Loans	Fair value
Mortgage loans	3.170.542	3.483.712
Private loans	29.724	29.724
Deposits with financial institutions	-	-
Other	4	4
At December 31	**3.200.270**	**3.513.440**

2013	Total	Fair value
Mortgage loans	1.457.822	1.777.562
Private loans	4.043	4.025
Deposits with financial institutions	-	-
Other	-	-
At December 31	**1.461.865**	**1.781.587**

	2014	2013
Current	152.717	53.092
Non-current	3.047.553	1.408.773
Total	**3.200.270**	**1.461.865**

Reference is made to note 21 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 in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 172 million as at December 31, 2014 (2013: EUR -/- 47 million). Total fair value movement of the mortgage loan portfolio due to hedge accounting was EUR 213 million during 2014 (2013: EUR -/- 47 million).

The private loans consist of investments in the D-notes of SPV Saecure 12 and participations in an external SPE.

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

5.2 Loans allowance account

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

	2014	2013
At January 1	929	182
Addition charged to income statement	146	747
Reversal to income statement	-	-
Amounts written off	-9	-
Other movements	-	-
At December 31	**1.066**	**929**

6. Derivatives

	Note	Derivative asset		Derivative liability	
		2014	2013	2014	2013
Derivatives not designated in a hedge		574.942	37.577	583.047	33.599
Derivatives designated as cash flow hedges					
Derivatives designated as fair value hedges		3.331	28.576	271.201	25.185
Total		**578.273**	**66.153**	**854.248**	**58.784**

	2014	2013
Current	-355	-9
Non-current	-275.620	7.378
Total net derivatives	**-275.975**	**7.369**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 21.2.

6.1 Use of derivatives

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
	2014	2013	2014	2013
Derivatives held as an economic hedge	574.942	37.577	583.047	33.599
Bifurcated embedded derivatives	-	-	-	-
Total	**574.942**	**37.577**	**583.047**	**33.599**

Aegon Hypotheken uses derivative instruments as a part of its asset liability management strategy: the risk management of all assets and liabilities. They may relate to an existing asset or liability or a future reinvestment risk. Derivatives are classified as economic hedges to the extent that they do not qualify for hedge accounting or where Aegon Hypotheken has elected not to apply hedge accounting. In all cases, they are in accordance with internal risk guidelines and are closely monitored for continuing compliance with these guidelines.

The fair value of derivatives on both the asset and liability side of the statement of financial position increased during 2014. This increase is mainly caused by a further decrease in market interest rates in combination with the practice of Aegon Hypotheken to buy swaps and swaptions to offset certain derivative positions rather than unwinding the positions as a whole. Although these new swaps create a full economic offset with existing swaps, the positive and negative derivatives cannot be offset under IFRS and increased both the asset and liability side.

Interest rate derivatives are used to manage interest risk positions. These contracts are designated as economic hedges with respect to these risks. The main types of derivatives used for this are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures. Currency contracts are used to manage Aegon Hypotheken’s positions in net foreign currency investments. The main types of derivatives used for this are cross-currency swaps and currency forward contracts. Other derivatives are used to manage risks relating to equities and credit. The main types of derivatives used for this are equity swaps, options, futures and credit derivatives.

Certain derivatives are used to add risk by selling protection in the form of single name and index based credit default swaps and tranches of synthetic collateralized debt obligations. Another strategy used is to synthetically replicate corporate and sovereign credit exposures with credit derivatives. This involves the purchase of high quality low risk assets and the sale of credit derivatives. The table above provides a breakdown to credit quality of these credit derivatives.

<u>Derivatives designated as fair value hedges</u>

Aegon Hypotheken’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	219.550	-47.405
Offset amount of fair value changes recognized on derivatives used as hedging instrument	-219.528	47.268
Total accounting ineffectivenes under the EU carve-out recognized in the income statement	**22**	**-137**

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

	2014	2013
Presented as asset	3.331	28.576
Presented as liability	271.201	24.214
Total	**-267.869**	**4.361**

7. Long-term loans and group loans

These long-term loans and group loans can be split into a loan to Aegon Levensverzekering in relation to Saecure 14 of EUR 530 million (2013: EUR 0 million) and to Aegon Derivatives of EUR 298 million (2013: EUR 8 million) in relation to collateral on derivatives. Both loans are considered to be non-current.

The SPE Saecure 14 bought mortgage loans from Aegon Levensverzekering for an amount of EUR 530 million. However, under IFRS, these mortgage loans continue to be recognized on the balance sheet of Aegon Levensverzekering (no 'derecognition'). As a consequence, Aegon Hypotheken has a receivable to Aegon Levensverzekering for this amount.

In addition, Aegon Hypotheken received a loan from other Aegon entities for a total amount of EUR 350 million as per 31-12-2014 (2013: EUR 0 million). These loans have a floating interest rate (euribor) and are considered to be current. All the loans are measured at amortized cost. It is assumed that the carrying amount all these loans is equal to fair value.

8. Other assets and receivables

	Note	2014	2013
Receivables	8.1	504.327	642.072
Accrued income	8.2	12.555	7.053
Total		**516.882**	**649.125**

8.1 Receivables

	2014	2013
Mortgage receivables	503.561	323.668
Current account with Aegon Nederland	-	318.237
Other	765	167
Total	**504.326**	**642.072**
Current	504.326	642.072
Non-current	-	-
Total	**504.326**	**642.072**

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

8.2 Accrued income

	2014	2013
Accrued interest	11.853	7.053
Prepaid expenses	702	-
At December 31	**12.555**	**7.053**

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

9. Cash and cash equivalents

	2014	2013
Cash at bank and in hand	115.531	17.086
Short-term deposits	-	-
Short-term collateral	-	-
Total	**115.531**	**17.086**

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.

We refer to note 23 'Transfers of financial assets' for more information on collateral and reverse repurchase obligations.

10. Equity

	2014	2013
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	201.740	177.704
Total	**221.758**	**197.722**

10.1 Share capital

	2014	2013
Authorized share capital	18	18
Not issued	-	-
	18	**18**

The authorized share capital is EUR 90.000, divided into 90 shares of EUR 1.000 nominal value each, of which 18 shares have been issued and fully paid. No dividend was paid in 2014 and 2013.

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.

10.2 Share premium

	2014	2013
At January 1	20.000	20.000
Capital contributions	-	-
At December 31	**20.000**	**20.000**

11. Borrowings and group loans

	2014	2013
Debentures and other loans	2.878.115	509.636
Loans from other group companies of Aegon Nederland N.V.	1.565.190	1.432.367
Total	**4.443.305**	**1.942.003**
Current	1.582.097	1.310.000
Non-current	2.861.208	632.003
	4.443.305	**1.942.003**

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.

11.1 Debentures and other long term loans

During 2014, residential mortgage backed securities (RMBSs) were issued under the Dutch SAECURE program (SAECURE 14 and SAECURE 15) for a total amount of EUR 2,810 million (2013: EUR 1,365 million).

The table below represents the carrying amount of all debentures and other long term loans outstanding.

in EUR'millions	Coupon rate	Coupon date	Issue / maturity	FORD	Legal Maturity date	2014 carrying amount	2013 carrying amount
EUR 1.367 million 'SAECURE 14' RMBS Note	floating	quarterly	2014 / 19	Jan. 2019	Jan. 2092	1.321	-
EUR 1.443 million 'SAECURE 15' RMBS Note	floating	quarterly	2014 / 20	Jan. 2020	Jan. 2092	1.443	-
Loan facilities warehouse mortgage loans						114	510
Total						**2,878**	**510**

The RMBS securities were issued under the Dutch Saecure program. The net proceeds were used to finance a part of the existing Dutch mortgage portfolio of Aegon Hypotheken. FORD stands for the "First Optional Redemption Date". All these notes are fully collateralized by mortgage loans, which are part of the investments of Aegon Hypotheken.

Committed financing takes place in a 'warehouse' structure for which a special purpose entity ('SPE'), Aegon Hypotheken Financiering B.V. ('Aegon Hypotheken Financiering'), has been incorporated. At the end of 2014, Aegon Hypotheken borrowed EUR 114 million via this warehouse structure (2013: EUR 510 million). The interest to be paid is derived from Euribor rates with an additional spread.

Aegon Hypotheken has a total of undrawn committed financing arrangements available for a period of more than one year of EUR 2,486 million (2013: EUR 1,990 million) and EUR 0 million for a period shorter than one year (2013: 100 million). A floating interest rate is applicable on these financing arrangements when drawn and a commitment fee when not.

11.2 Intercompany loans

These are loans drawn by companies within the Aegon Nederland group and are all current loans.

12. Deferred tax

	2014	2013
Deferred tax assets	-	10.229
Deferred tax liabilities	2.839	-
Total net deferred tax liability / (asset)	**2.839**	**-10.229**

Movement in deferred tax

2014	Real estate	Financial assets	Other	Total 2014
At January 1	-	-10.229	-	-10.229
Charged to income statement	-	13.067	-	13.067
Charged to equity	-	-	-	-
Other	-	-	-	-
At December 31	**-**	**2.839**	**-**	**2.839**
Deferred tax assets	-	-	-	**-**
Deferred tax liabilities	-	2.839	-	2.839

2013	Real estate	Financial assets	Other	Total 2013
At January 1	-	-15.468	-	-15.468
Charged to income statement	-	5.240	-	5.240
Charged to equity	-	-	-	-
Other	-	-	-	-
At December 31	**-**	**-10.229**	**-**	**-10.229**
Deferred tax assets	-	-10.229	-	-10.229
Deferred tax liabilities	-	-	-	**-**

The deferred tax relates to derivatives.

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.

13. Other liabilities and accruals

	Note	2014	2013
Other liabilities		45.893	1.656
Accruals		21.065	12.442
Total		**66.958**	**14.098**

13.1 Other liabilities

	2014	2013
Investment creditors	666	54
Current account with Aegon Nederland N.V.	26.071	-
Cash collateral	-	-
Other creditors	19.156	1.602
Total	**45.893**	**1.656**
Current	45.893	1.656
Non-current	-	-
	45.893	**1.656**

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

13.2 Accruals

This item relates to accrued interest with a term of less than one year. The carrying amount disclosed reasonably approximates the fair value at year-end.

14. Interest income

	2014	2013
Interest income	68.998	52.167
	68.998	**52.167**

Interest income consists of:

	2014	2013
Interest income out of:		
- Loans	105.736	78.931
- Other investments (derivatives)	-36.738	-26.764
Total	**68.998**	**52.167**

Interest income accrued on impaired financial assets	1.174	695
Interest income on financial assets that are not carried at fair value through profit or loss	101.936	77.664

15. Fee and commission income

	2014	2013
Commissions from intermediary activities	-	-
Fee income from asset management	-	-
Administration fee income	1.228	60
Other	-	-
Total	**1.228**	**60**

16. Results from financial transactions

	2014	2013
Net fair value change of financial investments FVTPL, other than derivatives	-	-
Realized gains / (losses) on financial investments	60.046	67.620
Gains / (losses) on investments in real estate	-	-
Net fair value change of derivatives	-65.780	6.587
Net foreign currency gains / (losses)	-	-
Total	**-5.734**	**74.207**

Realized gains and losses on financial investments

	2014	2013
Debt securities and money market investments (AFS)	-	-
Loans	60.046	67.620
Total	**60.046**	**67.620**

Net fair value change of derivatives comprise:

	2014	2013
Net fair value change on free standing derivatives	-	-
Net fair value change on embedded derivatives	-	-
Ineffective portion of hedge transactions to which hedge accounting is applied	22	-137
Fair value changes on economic hedges for which no hedge accounting is applied	-65.802	6.724
Total	**-65.780**	**6.587**

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	-219.528	47.268
Fair value change on hedged items in fair value hedge	219.550	-47.405
Ineffectiveness fair value hedge	**22**	**-137**

17. Commissions and expenses

	2014	2013
Commissions	-	-
Employee expenses	-	-
Administration expenses	12.720	15.475
Other	3.800	1.267
Total	**16.520**	**16.742**

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.

Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Hypotheken's independent public auditor during 2014 and audited these financial statements. The fees for services rendered to Aegon Hypotheken 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.

18. Impairment charges / (reversals)

	2014	2013
Impairment charges comprise:		
Financial assets AFS	-	-
Loans	146	747
Other	-	-
Total	**146**	**747**
Reversals of impairment charges comprise:		
Financial assets AFS	-	-
Loans	-	-
Total	**-**	**-**
Net impairment charges / (reversals)	**146**	**747**

19. Interest charges and related fees

	2014	2013
Borrowings	13.699	5.345
Short-term liabilities and deposits	2.079	4.150
Total	**15.778**	**9.495**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	15.778	9.495

20. Income tax

	2014	2013
Current tax		
- current year	-5.055	19.623
Deferred tax		
- origination / (reversal) of temporary differences	13.067	5.239
- changes in tax rates / bases	-	-
- recognition of previously not recognize tax losses / deductible taxes	-	-
- adjustment to prior year	-	-
Income tax for the period (income) / charge	**8.012**	**24.862**

The temporary differences relate mainly to financial assets.

Reconciliation between standard and effective income tax:

	2014	2013
Income before tax	32.048	99.450
Income tax calculated using weighted average applicable statutory rates	8.012	24.862
Difference due to the effects of:		
- non-taxable income	-	-
- non-tax deductible expenses	-	-
- changes in tax rates / bases	-	-
- differences in tax rates	-	-
- adjustments to prior years	-	-
- tax effect of (profit) / losses from associates	-	-
Income tax for the period (income) / charge	**8.012**	**24.862**

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

21. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Aegon Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken 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.

21.1 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				
FVTPL investments				
- Debt securities	-	-	-	-
- Derivatives	-	578.273	-	578.273
Total assets	**-**	**578.273**	**-**	**578.273**
Liabilities carried at fair value				
- Derivatives	-	854.248	-	854.248
Total liabilities	**-**	**854.248**	**-**	**854.248**

2013	Level I	Level II	Level III	Total 2013
Assets carried at fair value				
FVTPL investments				
- Debt securities	-	-	-	-
- Derivatives	-	66.153	-	66.153
Total assets	**-**	**66.153**	**-**	**66.153**
Liabilities carried at fair value				
- Derivatives	-	58.784	-	58.784
Total liabilities	**-**	**58.784**	**-**	**58.784**

Significant transfers between Level I and II

Aegon Hypotheken’s policy is to record transfers of assets and liabilities between Level I and Level II at their fair values as of the beginning of each reporting period. During 2014 and 2013, no amount of assets was transferred from Level I to Level II.

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	3.170.542	3.483.712	-	-	3.483.712	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	29.724	30.456	-	-	30.456	Discounted cash flow	-
Deposits with financial institutions	-	-	n.a.	n.a.	n.a.	n.a.	n.a.

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	1.457.822	1.777.562	-	-	1.777.562	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	4.043	4.025	-	-	4.025	Discounted cash flow	-
Deposits with financial institutions	-	-	n.a.	n.a.	n.a.	n.a.	n.a.

The description of Aegon Hypotheken's methods of determining fair value and the valuation techniques are described on the following pages.

21.1.1 Mortgage loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Hypotheken, 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.

21.1.2 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.

21.1.3 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 Hypotheken normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[2] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Hypotheken 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.

21.1.4 Other borrowings

Other borrowings are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). For the determination of the fair value of the borrowings, the level hierarchy as described by IFRS is used. The preferred method of obtaining the fair value of the fair value option bonds is the quoted price (Level I). In case markets are less liquid or the quoted prices are not available, an internal model is used, using parameters which are market observable (Level II). Aegon Hypotheken uses a discounted cash flow method including yield curves such as deposit rates, floating rate and 3-month swap rates. In addition Aegon Hypotheken includes the own credit spread based on Aegon's credit default swap curve.

21.2 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.

[2] International Swaps and Derivatives Associations

	2014		2013	
	Trading	Designated	Trading	Designated
Assets	-	212.785	-	-47.405
Derivatives with positive values	574.942	3.331	37.577	28.576
Total financial assets at FVTPL	**574.942**	**216.117**	**37.577**	**-18.829**

	2014		2013	
	Trading	Designated	Trading	Designated
Liabilities for guarantees		-		-
Derivatives with negative values	583.047	271.201	33.599	25.185
Total financial liabilities at FVTPL	**583.047**	**271.201**	**33.599**	**25.185**

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	1.508	-67.288	297	6.290

<u>Derivatives</u>

With the exception of derivatives designated as a hedging instrument, all derivatives 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).

22. Commitment and contingencies

22.1 Investments contracted

In the normal course of business, Aegon Hypotheken 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
Private loans	-	-
Mortgage loans	300.394	316.121
Other	-	-

Contracted sales	2014	2013
Private loans	-	-
Mortgage loans	1.057	963
Other	-	-

In August 2014, Aegon Hypotheken made a commitment with an external party to sell a portfolio of mortgage loans for a maximum amount of EUR 500 million, where all risks and rewards of these mortgage loans are borne by the external party from the moment of origination. It concerns mortgage loans, which fulfill contractual eligibility criteria and have been originated after the commitment was made. At the end of 2014 EUR 274 million was sold to this external party. Part of this commitment is that Aegon Hypotheken has the obligation to buy back the mortgage receivables at a predefined schedule at market value at that moment. Aegon Hypotheken incorporates these repurchases in its liquidity planning.

22.2 Litigations and proceedings

Aegon Hypotheken 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 Hypotheken 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 Hypotheken will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

23. Transfers of financial assets

Transfers occur when Aegon Hypotheken transfers contractual rights to receive cash flows of financial assets or when Aegon Hypotheken retains the contractual rights to receive the cash flows of the transferred financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in that arrangement.

In the normal course of business, Aegon Hypotheken is involved among others in the following transactions:

1. Transferred financial assets that are derecognized in their entirety and Aegon Hypotheken does not have a continuing involvement (normal sale);
2. Transferred financial assets that are derecognized in their entirety, but where Aegon Hypotheken has a continuing involvement:
    a. Securitizations whereby mortgage loans are transferred to a securitization vehicle which is not part of the Group and where Aegon Hypotheken has a continuing involvement in the transferred assets.
3. Collateral accepted in the case of securities lending, reverse repurchase agreement and derivative transactions;
4. Collateral pledged in the case of (contingent) liabilities, repurchase agreements, securities borrowing and derivative transactions.

The following disclosures provide details for transferred financial assets that are not derecognized in their entirety, transferred financial asset that are derecognized in their entirety, but where Aegon Hypotheken has a continuing involvement and assets accepted and pledged as collateral.

23.1 Assets pledged

Aegon Hypotheken pledges assets that are on its statement of financial position in relation to long-term borrowings. In addition, in order to trade derivatives on the various exchanges, Aegon Hypotheken posts margin as collateral.

These transactions are conducted under terms that are usual and customary to standard long-term borrowing and derivatives, as well as requirements determined by exchanges where a bank acts as intermediary.

To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized.

As part of Aegon Hypotheken's mortgage loan funding program, EUR 2.9 billion (2014: EUR 0.1 billion) have been pledged as security for notes issued (refer to note 11 'Borrowings and group loans'). In addition, in order to trade derivatives on the various exchanges, Aegon Hypotheken posts margin as collateral.

24. Offsetting, enforceable master netting arrangements and similar arrangements

The table below provides details relating to the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities.

Financial assets and liabilities are offset in the statement of financial position when Aegon Hypotheken has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Aegon Hypotheken mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities of Aegon Hypotheken to facilitate Aegon Hypotheken's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Hypotheken or its counterparty. Transactions requiring Aegon Hypotheken or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

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

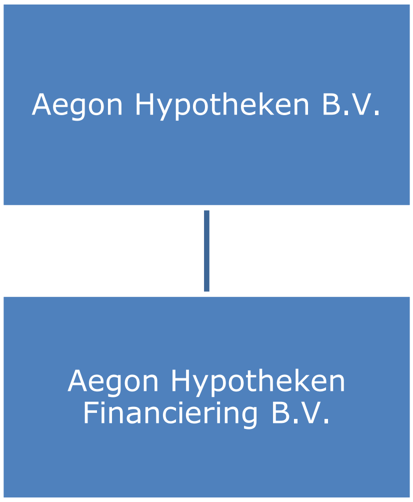
2014	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	578.273	-	**578.273**	854.248	-298.150	**22.175**
At December 31	**578.273**	**-**	**578.273**	**854.248**	**-298.150**	**22.175**

2013	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	66.153	-	**66.153**	58.784	-8.150	**15.519**
At December 31	**66.153**	**-**	**66.153**	**58.784**	**-8.150**	**15.519**

25. Group companies

25.1 Investments in other and structured entities

The organization chart of Aegon Hypotheken B.V. Bank and its principal subsidiary at year-end 2014 was as follows:



Aegon Hypotheken holds no shares in Aegon Hypotheken Financiering B.V., vested in Amsterdam. 100% of the shares in Aegon Hypotheken Financiering B.V. are held by Stichting Aegon Hypotheken Financiering Holding. However, as Aegon Hypotheken has 'control' over this special purpose entity, Aegon Hypotheken Financiering is consolidated. In case of a possible termination of the warehouse construction, Stichting Aegon Hypotheken Financiering Holding will be eliminated and any remaining balance will flow to Aegon Hypotheken B.V.

The following structured entities are group companies and have been consolidated. The structures entities relate to the securitization of mortgage loans. The contractual agreements with these entities do not include provisions in which Aegon Hypotheken could be required to provide financial support in certain circumstances. Aegon Hypotheken has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

- SAECURE 14 B.V.
- SAECURE 15 B.V.

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 Hypotheken has uncommitted financing arrangements with group companies. At December 31, 2014 Aegon Hypotheken B.V. had borrowed EUR 1,100 million (2013: EUR 1,310 million) from group companies. The interest on these arrangements is based on Euribor. In 2014, an interest expense of EUR 1.7 million on the intercompany loan was recognized in the income statement (2013: EUR 1.6 million).

Aegon Hypotheken has committed financing arrangements of EUR 350 million (2013: EUR 850 million) with group companies. These internal committed facilities were not drawn during 2014 and 2013. Aegon Hypotheken paid a total of EUR 0.9 million in commitment fees (2013: EUR 1.5 million).

Except for the committed and uncommitted financing transactions listed above and sales transactions, the majority of the transactions with group companies run through Aegon Nederland and are settled through the current account with Aegon Nederland. At the end of the financial year, Aegon Hypotheken owed EUR 26 million in current account to Aegon Nederland (2013: current account debt of EUR 333 million). An interest charge of EUR 1.5 million on the current account was recognized in the income statement in 2014 (2013: interest charge of EUR 1.4 million).

During 2014, Aegon Hypotheken sold in total EUR 730 million of mortgage loans to subsidiaries of Aegon Nederland (2013: EUR 2.4 billion). These sales generated a result of EUR 60 million (2013: EUR 67.6 million). On the other hand, Aegon Hypotheken bought back a portfolio mortgage loans for an amount of EUR 810 million from subsidiaries of Aegon Nederland. The notional amount of these mortgage loans were EUR 681 million.

During 2014, Aegon Hypotheken originated mortgage loans for account of the Dutch Mortgage Fund, managed by Aegon Investment Management B.V., for in total EUR 1.8 billion (2013: EUR 530 million).

During 2014, Aegon Hypotheken paid EUR 1.2 million to Aegon Bank in relation to the bank saving mortgages (2013: EUR 1.2 million) and EUR 5.9 million to Aegon Levensverzekering (2013: EUR 6.8 million) for managing the mortgage loan portfolio.

Aegon Hypotheken uses treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Hypotheken uses to mitigate interest rate risk are concluded with Aegon Derivatives N.V.

Aegon Hypotheken is part 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 Hypotheken is jointly and severally liable for all tax liabilities of the entire tax group.

The private loans relate to the D-notes of SPV's of SAECURE 12, SAECURE 14 and SAECURE 15 that Aegon Hypotheken holds. These securities are not secured by mortgages.

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, July 22, 2015

The Executive Board,

M.B.A. Keim

E.W. Koning

R.J. Spuijbroek

R.M. van der Tol

M.J. Edixhoven

Financial Statements 2014 of Aegon Hypotheken B.V.

Report of the Executive Board

See page 6 of the annual report for the Report of the Executive Board.

Statement of financial position

(before profit appropriation)

	Note	31-12-2014	31-12-2013	1-1-2013
Amounts in EUR thousand				
Assets				
Loans	3	3.200.270	1.461.865	1.234.564
Deferred tax assets	10	-	10.229	15.468
Derivatives	4	169.059	66.153	1.998
Long-term loans and group loans	5	822.842	174.746	115.678
Other assets and receivables	6	516.882	649.125	307.689
Cash and cash equivalents	7	115.531	17.086	20.749
Total assets		**4.824.584**	**2.379.204**	**1.696.146**
Equity and liabilities				
Equity	8			
- Share capital		18	18	18
- Share premium		20.000	20.000	20.000
- Retained earnings		177.704	103.116	-22.382
- Net income / (loss)		24.036	74.588	125.498
Total equity		**221.758**	**197.722**	**123.134**
Long-term loans and group loans	9	4.087.995	2.108.599	1.474.450
Derivatives	4	445.034	58.784	57.929
Deferred tax liabilities	10	2.839	-	
Other liabilities and accruals	11	66.958	14.099	50.633
Total liabilities		**4.602.826**	**2.181.482**	**1.583.012**
Total equity and liabilities		**4.824.584**	**2.379.204**	**1.706.146**

The 2012 result and the amounts at January 1, 2013 have been restated for a prior period error as disclosed in note 2.2.

Income statement

Amounts in EUR thousand	2014	2013
Net income / (loss) group companies	-	-
Other income / (loss) after tax	24.036	74.588
Net income / (loss)	**24.036**	**74.588**

Notes to the financial statements

1. General information

Aegon Hypotheken B.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 Hypotheken is a 100% subsidiary of Aegon Nederland N.V. in The Hague. Aegon Hypotheken 's ultimate holding company is Aegon N.V. in The Hague.

Aegon Hypotheken and its group companies make direct offers of and service mortgages to Dutch consumers. They also obtain the funding they need to finance those loans from companies in the Aegon group (internal funding) and through financing agreements with professional parties outside the Aegon group (external funding).

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 2:362.8 of the Netherlands Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as used for the preparation of the consolidated financial statements of Aegon Hypotheken.

With regard to the income statement of Aegon Hypotheken, article 402, Part 9 of Book 2 of the Netherlands Civil Code has been applied, allowing a simplified format.

For the accounting policies we refer to the accounting policies set out in note 2 of the consolidated financial statements. These also apply to the separate financial statements unless stated otherwise.

2.2 Restatement of prior period errors

In 2014 a tax error of EUR 15 million occurred, which was related to a transaction in 2012. Because this can be seen as a material error, Aegon Hypotheken restated the profit- and loss account for 2012 and the equity as per 1-1-2013 for this amount. As a result, the equity as per 1-1-2013 decreased by EUR 15 million and the net income in 2012 decreased by EUR 15 million.

2.4 Group companies

The group companies are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

2.5 Equity

Refer to note 2.10 of the consolidated financial statements for more information on equity.

3. Loans

Refer to note **Error! Reference source not found.** of the consolidated financial statements for more information on loans.

4. Derivatives

Certain derivative positions closed between Aegon Hypotheken B.V. and the SPE are recognized in the consolidated financial statements, but cannot be recognized in the single financial statements of Aegon Hypotheken. This is due to the fact that the mortgage loans transferred to the SPE are not derecognized in the financial statements. The derivatives that have prevented the derecognition can therefore not be recognized.

Refer to note 6 'Derivatives' of the consolidated financial statements for more information.

5. Long-term loans and group loans

	2014	2013
Receivables from Aegon Derivatives N.V.	298.150	8.150
Loan to Aegon Hypotheken Financiering B.V.	150.175	166.596
Loans to other group companies of Aegon Nederland N.V.	350.000	-
D-notes of Saecure 14 and Saecure 15	24.517	-
	822.842	**174.746**

The group loan to Aegon Derivatives of EUR 298 million (2013: EUR 8 million) is related to collateral on derivatives. The loan to Aegon Hypotheken Financiering B.V. of EUR 150 million (2013: EUR 167million) is related to the warehouse structure for mortgage loans and is subordinated. Both loans are considered to be non-current (1-2 years).
Aegon Hypotheken received a loan from other Aegon entities for a total amount of EUR 350 million as per 31-12-2014 (2013: EUR 0 million). These loans have a floating interest rate (euribor) and are considered to be current (1 year).
All the loans are measured at amortized cost. It is assumed that the carrying amount of all these loans is equal to fair value.

6. Other assets and receivables

Refer to note 8 'Other assets and receivables' of the consolidated financial statements for more information.

7. Cash and cash equivalents

Refer to note 9 'Cash and cash equivalents' of the consolidated financial statements for more information.

8. Equity

	2014	2013
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	192.837	103.116
Net income / (loss)	8.903	74.588
At December 31	**221.758**	**197.722**

8.1 Share capital

	2014	2013
Authorized share capital	18	18
Not issued	-	-
	18	**18**

The authorized share capital is EUR 90.000, divided into 90 shares of EUR 1.000 nominal value each, of which 18 shares have been issued and fully paid. No dividend was paid in 2014 and 2013.

8.2 Statement of changes in equity

2014	Share capital	Share premium	Retained earnings	Net income / (loss)	Total 2014
At January 1	**18**	**20.000**	**103.116**	**74.588**	**197.722**
Net income 2013 retained	-	-	74.588	-74.588	-
Net income 2014	-	-		24.036	24.036
Total net income / (loss)	**-**	**-**	**74.588**	**-50.552**	**24.036**
Changes revaluation reserves	-	-	-	-	**-**
Other	-	-	-	-	**-**
Other comprensive income / (loss)	**-**	**-**	**-**	**-**	**-**
Dividend common shares	-	-	-	-	-
Equity changes from relation with shareholder	**-**	**-**	**-**	**-**	**-**
At December 31	**18**	**20.000**	**177.704**	**24.036**	**221.758**

2013	Share capital	Share premium	Retained earnings	Net income / (loss)	Total 2013
At January 1	**18**	**20.000**	**-22.382**	**125.498**	**138.267**
Net income 2012 retained			125.498	-125.498	-
Net income 2013				74.588	74.588
Total net income / (loss)			**125.498**	**-50.910**	**74.588**
Changes revaluation reserves					
Other					
Other comprensive income / (loss)					
Dividend common shares	-	-	-	-	-
Equity changes from relation with shareholder	**-**	**-**	**-**	**-**	**-**
At December 31	**18**	**20.000**	**103.116**	**74.588**	**212.855**

Refer to note 10 'Equity' of the consolidated financial statements for more information on equity.

9. Long-term loans and group loans

	2014	2013
Long term loan to Saecure 12	119.159	122.003
Other loans to third parties	-	10.000
Short term loans with Aegon Hypotheken Financiering	264.275	666.596
Loans from other group companies of Aegon Nederland N.V.	3.704.561	1.310.000
	4.087.995	**2.108.599**
Current	1.513.091	1.976.596
Non-current	2.574.904	132.003
Total	**4.087.995**	**2.108.599**

Refer to note 11 'Borrowings and group loans' of the consolidated financial statements for more information.

The amount payable to the SPE's Aegon Hypotheken Financiering, Saecure 14 and Saecure 15 is due because, under IFRS, the mortgage loans sold to the SPE's continue to be recognized on the balance sheet of Aegon Hypotheken (no 'derecognition'). Beneficial ownership of the portfolio remains with Aegon Hypotheken after sale of the mortgage loans.

10. Deferred tax

We refer to note 12 of the consolidated statements for information on the deferred tax.

11. Other liabilities and accruals

We refer to note 13 of the consolidated statements for information on other liabilities and accruals.

12. Related party transactions

Refer to note 26 of the consolidated financial statements for information on the related party transactions.

13. Remuneration Executive Board

Refer to note 17 of the consolidated financial statements for information on the remuneration on the Executive Board.

14. Remuneration Independent Auditor

Refer to note 17 of the consolidated financial statements for information on the remuneration on the independent Auditor.

15. Commitments and contingencies

Refer to note 22 of the consolidated financial statements for more information on commitments and contingencies.

16. 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, July 22, 2015

The Executive Board,

M.B.A. Keim

M.J. Edixhoven

E.W. Koning

R.J. Spuijbroek

R.M. van der Tol

Other information

Provisions in the articles of association regarding profit appropriation

Appropriation of profit will be determined in accordance with article 17 of the Articles of Association of Aegon Hypotheken B.V. The relevant provisions read as follows:

Article 17 Profit and distributions

1. The general meeting is authorized to appropriate the profit established by adoption of the financial statements and to set distributions, subject to the restrictions set by law.
2. The authority of the general meeting of shareholders to set distributions applies to distributions charged to the profit not taken to the reserves and distributions charged to any reserve, and also to distributions when the financial statements are adopted and interim distributions.
3. A resolution to make a distribution shall have no effect until approved by the board. The board shall withhold approval if it knows or reasonably ought to know that the company would be unable to pay it due liabilities following the distribution.

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:

Addition to the retained earnings	24,036
Net result	**24,036**

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

Independent auditor’s report

Independent auditor's report

To: the general meeting of Aegon Hypotheken B.V.

Report on the financial statements

We have audited the accompanying financial statements 2014 of Aegon Hypotheken B.V., Den Haag, which comprise the consolidated and company statement of financial position as at 31 December 2014, the consolidated and company income statement, the consolidated and company statement of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers Accountants N.V., Zuiderzeelaan 53, 8017 JV Zwolle, P.O. Box 513, 8000 AM Zwolle, The Netherlands
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Opinion

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

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Executive Board, 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 under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Report of the Executive Board, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Zwolle, 22 July 2015
PricewaterhouseCoopers Accountants N.V.

Originally signed by drs. R. Hoogendoorn RA