Annual report 2015

Aegon Schadeverzekering N.V.

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Annual report 2015

Report of the Executive Board

General

Aegon Schadeverzekering N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law. Aegon Schadeverzekering N.V. is a wholly-owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'), The Hague.

Aegon Schadeverzekering N.V. is active in the non-life and income market.

Purpose, strategy, objectives

<u>Our purpose and strategy</u>

Aegon Nederland's, the parent company of Aegon Schadeverzekering N.V., purpose has customers at its core. Our aim is to "help people take responsibility for their financial future" ("wij stellen mensen in staat zelf, bewust keuzes te maken voor hun financiële toekomst"). To fulfil this mission, we focus on domains that matter most for the financial future of our customers, i.e. Income (*Inkomen*) and Housing (*Wonen*). Within these domains, Aegon Nederland aims to offer comprehensive value propositions that will meet our customers' needs at every stage of their life. They combine products and services across the different business lines. Data and digital technology thereby play a fundamental role to ensure we meet customer needs in the most relevant and appropriate way, with the right products and services at the right time. Our strategy is aligned across four objectives, i.e. to create loyal customers, achieve operational excellence, realize an optimized portfolio and have empowered employees.

<u>Strategic objectives Aegon Nederland</u>

Loyal customers:

Roll-out one brand positioning and service approach.
As interaction with consumers (including participants in pension schemes) is becoming more important, Aegon Nederland is building a more recognizable and distinctive Aegon Nederland brand across all touch points, with a clearer brand promise that is in line with our purpose and will continue to be the basis for all customer interactions. To ensure a better and more aligned customer service experience, we developed a joint cross-channel service approach. In our ever-changing world, customers expect a more digital approach from us and a service that is appropriate and relevant to their individual circumstances and needs. Increasing use of data insights ensures more appropriate and relevant propositions across products, services and channels.

Implementing a cross-channel distribution strategy.
Customers choose the channel through which they want to do business with Aegon. Common distribution principles have been established, all of them with one clear ambition regarding our channel mix, the coordination of joint initiatives, the development of cross-channel customer journeys, improved channel reporting and lead management. In addition to this, we have been implementing our pricing strategy across channels, based on a more individual/dynamic pricing and also based on our distribution principle of providing the same product at the same price in every channel.

Reorganized customer interaction departments.
In order to streamline customer interaction, the departments of marketing, product management, strategy and online services were combined so as to create one department that works across business lines. Within this department, our customer strategy, data insights and digital interaction play a pivotal role. Our customer intelligence team has been upgraded with more analysis capacity to ensure that the right data is utilized better. A separate 'Customer Focus' department, in their capacity as an independent challenge institution, will see to it that Aegon translates customer needs in everything it does.

Operational excellence:

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, product terms 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 require.

Reduce expenses through sourcing and digitization across the business. By increasing the speed of digitization, we aim to reduce expenses in our existing book by 50 mln (2018 acc.) across operations, IT, support and commerce. In addition to reducing cost levels, this will also help us to improve our service levels.

Implementation CRM system (Salesforce).
All relevant information about individual customers is now available in the CRM system 'Salesforce'. Salesforce provides us with a more elaborate view of our customer and will improve efficiency and effectiveness in customer-facing teams. Salesforce is now available to all customer-facing employees.

Optimized portfolio:

Leverage current business models.
Across businesses we aim to seize market opportunities that provide value to our customers and to Aegon. For instance, sales in 'Defined Contribution' (DC) pensions are going up, fuelled by PPI 'Premie Pensioen Instelling' and the cooperation with 'TKP'. Fee business in our bank and mortgage businesses is growing. We are launching our new APF (general pension fund) 'STAP'. And at the same time, we are reshaping our portfolio around the concepts of Income and Living. Hence we will divest our commercial non-life business.

Innovate new business models.
We take an active part in ('fintech') startups and/or develop new businesses ourselves in order to speed up innovation. We are a key partner in startups such as 'Onna' (digital interaction with women around insurance), 'eyeOpen' (digital mortgage advice) and 'Newest Industry' (software platform development). We are also founder of Kroodle (data-driven insurance) and 'Knab'. Knab was launched mid 2012 as an online bank that puts customers first in everything it does. Knab enables us to learn more about financial tooling, segmented marketing and retail financial services. Knab has been growing at a fast pace, evolving into a customer base of 80,000 at the end of 2015.

Empowered employees:

Attract and retain talent.
In today's world, hiring and keeping digital, data, commercial and operational talent is key to improving customer interaction and operational excellence. We continue to invest in talent programs and in enhancing our employer brand as an innovative,

customer centric company. This leads to growing recruitment of talent also from outside our industry, bringing in new perspectives and capabilities.

Focused learning & development.
We have set up and have implemented a talent review framework and a better aligned performance review process. We are improving our way of working by using the management drives methodology, internal branding and by establishing a culture around our three core values, i.e. working together, providing clarity and exceeding expectations.

Strategy of Aegon non-life

At the end of a strategic review process (finished at the beginning of 2015) it was concluded by the executive board that (i) Income and (ii) Property and Casualty Consumer business are strategic for Aegon Netherlands. The third business line, (iii) non-life Commercial lines and Proxy was deemed non-strategic. Furthermore, in order to restore profitability for Aegon Schadeverzekering N.V., it was decided by the executive board to put the Proxy ('volmacht') and Co-insurance ('beurs') businesses in run off per March 1st 2015. The corporate line business via intermediaries is also non-strategic but open for renewals and new customers, though with tightened underwriting standards. At the end of the second quarter of 2015 the board decided to explore a possible sale of the non-life corporate line.

Investments made in both the non-life Consumer business as well as in the Income business have been optimized. In addition to those investments, improvements in the loss ratio of the Consumer business are necessary. Secondly, adding scale to the existing volume of both strategic business lines is paramount to strategic survival. This can be reached by autonomous growth but also by smaller "bold on" acquisitions. Thirdly a substantial reduction of expenses after 2016 in combination with better embedded controls are also mission critical. Leadership of the business lines will focus on these elements the next three years. Aegon Schadeverzekering N.V. is expected to be profitable again from 2017 or 2018 onwards. Exact timing depends on the sale of the non-strategic business and abovementioned performance improvements of the strategic business.

Income (Accident & Health)
Key elements of the 2013 strategy for Income are a) to be the best income insurer in the area of assisting reintegration and b) that early prevention in the disability process is beneficial. All products are offered to all target groups. In 2014 a number of initiatives was launched resulting in a strong reduction of claims. However the results of absence through absenteeism were behind target.

As of 2015 Aegon strengthened the strategy for Income anticipating on the changing market for income insurance and the need to align with Aegon's NL overall strategy.

The core of this renewed strategy of Income is the belief that we can provide added value for our customers with the combination of (reintegration) services and assurance. This allows us to help customers make the right (financial) choices in absenteeism and disability. Income insurances protect customers from big (financial) risks and both customers and Aegon have an interest in active management of claims. Aegon has the knowledge, network and tools to help customers with rehabilitation. Combining insurance and services decreases and reduces the risk of claims. With excellent service Aegon has a positive effect on the life of customers. To achieve this we will:

- bring our basic services in order through the simplification of systems and processes;
- offer our clients tools which they can consciously make choices for a healthy financial future in the field of disability;
- enter the market entry of Arbo / reintegration services, because it allows us - in combination with insurance - to provide relevant solutions for our customers and optimal management of claims;
- develop new distribution channels so that we can reach more customers in addition to improved utilization of the current channel;
- grow our portfolio with relevant propositions and commercial pricing;
- improve the cooperation with BL Pension because we see many similarities: reintegration services, distribution and cross sell of our propositions

Property and casualty
Technological developments lead to new customer behavior with an impact on the property and casualty (hereinafter P&C) business. As such, it is necessary that we change our P&C business to ensure that we can execute our refined strategy according to plan.

Consumer P&C
Based on the strategic reorientation executive board confirmed that the non-life business to consumer (B2C) fits within the Aegon strategy and we aim to develop this business further.

To be successful and create happy and loyal customers and a growing and healthy portfolio we need to further develop into a digital, data driven client orientated organization.

Key elements in the non-life B2C strategy are:
a) extensive digitization in all processes
b) development of data driven and fact based steering
c) further develop the multichannel strategy (via Intermediaries and direct)
d) growing our portfolio by developing pricing and further development of our products and services

For many consumers, non-life insurance products are the first financial products they consciously choose to buy. These products offer frequent opportunities to get in touch with our customers and build a relationship. This relationship can be used as a step-stone for expanding our direct (online) distribution business.

Commercial P&C
The existing intermediary product portfolio will be rationalized, based on performance and returns. This may reduce the size of this portfolio but will increase its profitability and value. As non-core activity no new activities or large investments will be made for this portfolio.

Course of events during the financial year

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

No major changes occurred in the course of 2015.

<u>Management of Aegon Nederland</u>

Customers are at the core of the Aegon Nederland strategy. The Aegon Nederland organization is currently in a phase of transition. Although Aegon Nederland was traditionally organized through Business Lines, a growing number of activities have been and are being developed independent of the Business Lines. To accelerate this process it was decided to structure Aegon Nederland in a different manner, with fewer (organizational) layers. The new structure will help Aegon Nederland and its subsidiaries to move forward.

In 2015, the Executive Board ('Directie Nederland') was transformed into a Management Team comprising the executive boards of Aegon Nederland N.V., Aegon Levensverzekering N.V., Optas Pensioenen N.V., AEGON Hypotheken B.V., AEGON Schadeverzekering N.V. and AEGON Spaarkas N.V. The CEO of Aegon Bank N.V. and Aegon PPI B.V., the directors of Risk Management & Compliance, Business Information Services, Marketing & Business Development and Human Resources were added to the Management Team. In addition, the position of Chief Investment Officer was introduced as a new function and open chairs were made available to the ultimately responsible managers of the units Customer Focus, Legal and Security, and Communications. Management of the several Non-Life business units ('Business Line Schade') was split into two, i.e. "retail clients" and "commercial line clients".

The chosen legal structure, which includes the legal entities of Aegon Nederland N.V., Aegon Levensverzekering N.V., Optas Pensioenen N.V., AEGON Hypotheken B.V., AEGON Schadeverzekering N.V. and AEGON Spaarkas N.V, will remain in place, as will their executive boards consisting of Mr. Keim, Mr. Zomer, Mr. Van der Tol and Mr. Edixhoven. Decisions to be made within the new Management Team are ultimately taken by the Executive Board.

Gender diversity (article 2:166 Dutch Civil Code)

The Executive Board of Aegon Nederland consists of a limited number of members. As a result, a balanced gender diversity is not easy to achieve and in fact was not realized in 2015. What is more, the selection and appointment of members of the Executive Board is based on expertise, skills and relevant experience. Aegon N.V. and Aegon Nederland do consider gender diversity in view of the aim of balanced Executive Board composition.

Business developments

Early March an update of the strategy of the Business Line non-life was announced. As a result of the choices made, a restructuring was announced. We submitted a request for advice from the Central Works Council on April 1, 2015. This request meant a reduction of the number of jobs in the Service Center P&C from 183.7 to 108.7. The Central Works Council gave their positive advice on May 22, 2015. Because of this 83 employees become redundant between July 1, 2015 and January 1, 2017.

Consumer P&C (Property & Casualty)
In 2015, the main objective for the Aegon Schadeverzekering N.V. non-life consumer line of business was to improve the profitability of its portfolio. The pressure on price and margin on 'simple' products such as car and household insurances in the non-life market continued, mostly due to the economic situation and a fiercely competitive market. We continued to focus on claims management by improving fraud detection and prevention and by implementing a more intensive control of our recovery network. We continued to invest in improving our cost efficiency by further digitizing and improving our processes and by implementing further rationalisation of our existing portfolio. Both our car and household products were redesigned based on customer demands, distribution principles (one product in all channels) and requirements with regard to pricing.

Income (Accident & Health)
Aegon Schadeverzekering N.V. further developed a new model that was first introduced in 2014 for the Income market called 'de Gezonde Aanpak' ('the Healthy Approach'). This meant implementing an integrated vision and approach towards more prevention and better claims management. The new approach enabled us to support employers (SME's) and entrepreneurs in dealing with absenteeism and disability in the best possible way. Employers could thus increase labour productivity and vitality. Major products were further redesigned to better meet customer demands on the one hand and profitability on the other. In the Consumer and Income market, Aegon Schadeverzekering N.V. invested in improving digital processes and straight-through processing. In the Income market, Aegon Schadeverzekering N.V. introduced a new, more differentiated premium model as well as product improvements on individual AOV (individual disability) insurances, which resulted in a higher number of contracts and fewer cancellations. Due to measures introduced by the government in 2015, the level playing field in the WGA/ERD market (collective disability insurance) has been more or less restored. It will not be until January 1, 2017, however (when employers also become responsible for the disability risk for workers on temporary contracts), that our customers will make a final choice between the UWV and/or the private market for the coming three years. This explains why there is little movement in the WGA/ERD portfolio of Aegon Income. Finally, cost efficiency and the optimization of the chain from customer to provider are important drivers in the non-life market and will become even more important in the years to come.

Commercial P&C
Early 2015, Aegon Schadeverzekering N.V. decided to direct its strategy on Income and Living and refrain from investing heavily in the commercial P&C business. Shortly after, all co-insurance and authorized agents were informed that over time their portfolios with Aegon Schadeverzekering N.V. would need to be transferred to other insurers. Starting July 2015, a reorganization in the teams involved was executed and underwriting was put on hold. In the Proxy team, the focus shifted towards monitoring the run-off, in addition to the execution of audits on authorized agents, an initiative that started end of 2014. As Aegon Schadeverzekering N.V. decided to put more effort into 'image-based loss adjustment', the team of Prevention & Loss Adjustment was downsized as well. For the intermediary business, a value proposition project was started mid-2014, in addition to the actions initiated in 2014 which continued in 2015. The intention was to further improve the portfolio, quantitatively as well as qualitatively.

Please note that, before July 1, the commercial P&C portfolio is expected to be divested. For further information, please refer to the paragraph 'Events after the balance sheet date'.

<u>Pending litigation portfolio and product issues</u>

There is no pending litigation.

Corporate Governance report

<u>Governance principles</u>

The Governance principles for Insurers issued by Dutch Association of Insurers was revoked January 1, 2016. Aegon continues to subscribe to the importance of governance principles and will therefore continue to act according to the governance principles as are implemented within Aegon Nederland.

Accountability

We present an account of the application of our principles in our annual report and on our website. This is on behalf of the insurance companies Aegon Levensverzekering N.V., Aegon Schadeverzekering N.V., Aegon Spaarkas and Optas Pensioenen N.V. The accountability report also forms an integral part of the annual reports of said insurance companies. References below to ‘Aegon’ are to Aegon Nederland and the insurance companies listed above.

Supervisory Board

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

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

The members have broad social and commercial backgrounds and experience. As members of Aegon’s Supervisory Board and through other supervisory directorships, they have thorough knowledge of the role and function of insurance companies and their stakeholders in society. In decision making and supervision, the Supervisory Board balances the interests of all stakeholders, including customers, distribution partners and employees and where relevant this is recorded in the minutes and is part of the self-evaluation by the Supervisory Board.

Furthermore a Supervisory Board profile is available and if a vacancy arises, an individual profile will be created. Aegon performs annual checks of individual critical abilities against the DNB’s Suitability Matrix for Supervisory Boards, in addition to which there are regular self-evaluations and a permanent education program. The formal confirmation took place at the beginning of 2016. If a vacancy arises for the position of chairman, an individual profile is drawn up which focuses on the Supervisory Board’s and Aegon’s requirements regarding expertise and experience in relation to the financial sector, familiarity with socio-economic and political culture and the social environments of Aegon’s main markets.

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

The members of the Supervisory Board receive suitable compensation that is not dependent on the Aegon results. Compensation is set by the General Meeting.

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

The 2014 and 2015 programs focused on the following relevant areas: (i) management, organization and communication, (ii) products, services and markets, (iii) sound business and (iv) balanced and consistent decision making. As a follow-up to the earlier programs, the themes covered in the programs for 2014 and 2015 could be categorized as: current developments and essentials in the financial sector in general and insurance in particular; developments in supervision (EU/World) and financial frameworks and legislation (Solvency II, IFRS and Wft); management control, risk management and compliance; strategy, ethics, culture, product approval and duty of care towards the client; financial frameworks (Solvency II and Wft) and Asset and Liability Management (ALM); integrity, soft controls, values and financial behavior and financial reporting, performance measurement and remuneration policies.

In 2014 and 2015, special attention was paid to Solvency II through several e-learning modules and a course on insurance products and the processing in IFRS and Solvency terms. Members of the Supervisory Board participated and will continue to participate in the entire program or in the parts relevant to them. Formal confirmation was provided at the beginning of 2016.

Once a year, the Supervisory Board assesses the effectiveness of the permanent education program. In 2014, the Supervisory Board evaluated its own functioning under independent supervision. The results were satisfactory and were discussed by the Supervisory Board and with the Executive Board and where necessary, actions were taken. At the beginning of 2016, the Supervisory Board assesses its own functioning. Formal confirmation will take place in 2016.

Duties and working methods
The Supervisory Board's discussions on risk management decisions are prepared by the Risk & Audit Committee. The Risk & Audit Committee Charter was updated in 2014, whereby extensive attention was paid to its risk management duties and responsibilities.

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

<u>Executive Board</u>

Membership
At Aegon, complementarity and diversity within the Executive Board is ensured by the members' different backgrounds, personalities and range of knowledge and experience. Whereas the members of the Executive Board have equal decision-making authority, the Executive Board aims to take decisions by consensus as much as possible. An updated profile for the Executive Board was drawn up in 2014 to underline the importance that Aegon attaches to a proper composition of the Executive Board.

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

The knowledge of the members of the Executive Board is kept up to standard and is improved by means of Aegon’s permanent education program, which is organized by the Secretary together with the HR Learning & Development department. The latter is also responsible for keeping records on participation. In 2014 and 2015, the programs focused on global leadership, business model meetings, strategy development sessions and culture change/competence development. There was special attention for Solvency II through several e-learning modules and insurance products, the processing in IFRS and Solvency terms. Aegon Nederland encourages other employees as well to follow useful training courses.

In 2015, the Supervisory Board evaluated the Executive Board. This included looking at expertise. It was noted that the Executive Board was functioning well and that the members were sufficiently expert. Formal confirmation took place at the beginning of 2016.

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

The CFO prepares the discussion on risk management decisions and the Chief Risk Officer (CRO) has a significant supporting role in this. The CRO is the director of the risk management function (the Risk Management & Compliance department), which is organized as a second line of defense (see the Risk Management paragraph below). He is also a member of the Management Team of Aegon Nederland. In this capacity, the CRO is closely involved in all the decisions that have a material impact on Aegon’s risk profile. The risk management function focuses on financial stability and the impact that systemic risks may have on Aegon’s risk profile. The CRO reports hierarchically to the CEO and also has a direct reporting line to the Chairman of the Supervisory Board.

The CFO has no individual commercial responsibility and operates independently of other commercial areas.

Duties and working methods
In its decision making, Aegon’s Executive Board carefully considers the interests of all parties concerned, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Code of Conduct.

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

In Aegon’s vision, the company has a responsibility for people’s financial awareness and development. Aegon wants to offer easily-understood solutions in a genuine dialogue to enable customers to make conscious decisions on their financial future. Aegon wants to present matters as they are. We believe it is our responsibility to assist customers and explain things in a simple way. More detailed information on this vision can be found on the website (www.aegon.nl).

The customer really does come first in our strategy and to this end the Aegon Fan Strategy was developed in 2008. This strategy aims to carefully balance the interests not only of customers, but also of all Aegon stakeholders, including employees. Aegon believes that paying attention to the interests of all stakeholders is in the customer's interest.

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

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

Integrity, care and putting customers' interests first are guiding principles for all Aegon employees. The wording of the declaration has been interpreted in the Aegon Code of Conduct and applies to all Aegon employees. The wording of the ethical statement and the Aegon Code of Conduct have been placed on:
http://www.aegon.nl/overaegon/maatschappij/gedragscode/

Since 2012, contracts of employment have included a specific reference to the Aegon Code of Conduct. By signing their employment contract, employees confirm that they have read and accept the codes of conduct applying at Aegon and will comply with them and any future codes of conduct applicable at Aegon. Shortly after their appointment, all new recruits go through an e-learning module that uses questions and answers to introduce the Aegon Code of Conduct, the principles in it and the spirit in which it was drawn up.

Risk management

The CEO has a primary responsibility in the Executive Board for adopting, implementing and monitoring the overall risk policy. During 2015, the overall policy on risk appetite and risk tolerance was confirmed by the Executive Board and approved by the Supervisory Board.

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

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

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

Both processes determine whether a product meets Aegon's current standards. They incorporate statutory requirements and consider whether the product is cost efficient, useful, secure and understandable for the target group and whether it fits the Aegon vision, strategy, core values and competences. Aegon adjusts the approval process where required so as to protect customers' interests. This is a point of ongoing attention. At year end, Internal Audit Netherlands (being the internal audit department) performs a risk analysis to determine whether an audit on the Governance Principles is required in next year's audit plan. The risk analysis for 2015 showed that an audit was not deemed necessary for the year in question.

Internal Audit

As explained above, Aegon is organized along the lines of a 'three lines of defense' model. In this set-up, Internal Audit Nederland is the third line of defense and is primarily responsible for systematic evaluation of and for improving the effectiveness of risk management, control, and governance processes associated with the activities of the Aegon insurance companies and (*inter alia)* Aegon Bank N.V.

Internal Audit Nederland is an independent central department at the level of Aegon Nederland. The Internal Audit Nederland Manual and the Aegon Nederland Governance Guide help ensure that the internal audit function meets the governance principles. The role, responsibilities, mandate and scope of their activities are also reflected in the Audit Charter. The Audit Manual states that independent auditors may not have any operational responsibilities in the first line of defense. It also states that the director of Internal Audit Nederland reports to the CEO of Aegon Nederland N.V. and of Aegon Bank N.V. and has a reporting line to the chairman of the Supervisory Board's Risk & Audit Committee of both Aegon Nederland N.V. and Aegon Bank N.V.

Internal Audit Nederland has regular contact and consultations with the Supervisory Board's Risk & Audit Committee and the external auditor to discuss the risk analysis and the audit plan.

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

Internal Audit Nederland also engages in frequent contacts with DNB to discuss risk analyses, findings and audit plans.

Remuneration policy

Basis

Aegon pursues a careful, sound and sustainable remuneration policy. As Aegon has adopted the Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid), the Aegon remuneration policy is in line with the requirements laid down in the Regulation.

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

The remuneration policy is in line with the Aegon Fan Strategy and Aegon's vision, core values and risk appetite. This means that the level of variable remuneration for employees is discussed in the Supervisory Board, as are the financial performance criteria that apply to variable remuneration. These are adjusted for the estimated risks and cost of capital, whereby the variable remuneration components are in line with Aegon's long-term targets. The maximum variable remuneration is 60% or 30% of fixed income for members of the Management Team (the 'at target level' is 40% or 20%) and 12% for other senior management ('at target' 8%). The Supervisory Board has approved the remuneration policy for the Management Team and other senior management and there is a policy on retention, exit and welcome packages. In line with the 2014 Law on Remuneration Policies for Financial Institutions (Wet beloningsbeleid financiële ondernemingen 2014, or 'Wbfo' 2014), that has been effective as from 2015, the total variable remuneration of senior management (including members of the Management Team) does not exceed 20% of fixed income for the whole group.

Part of the variable remuneration paid to Identified Staff (i.e. members of the Management Team and certain senior managers) is deferred and part is paid in shares. If the financial results of Aegon Nederland or the other insurance companies and the situation so require, the Supervisory Board is authorized to suspend or cancel all or part of the variable remuneration for all recipients (Management Team and senior management). Here too, Aegon follows the Regulation on Sound Remuneration Policies.

Governance

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

The remuneration policy and its implementation were discussed in meetings of the Supervisory Board on several occasions during 2015. The Supervisory Board also discussed the level of variable remuneration. As of 2015, following the new Aegon Group Global Remuneration Policy (AGGRF) 2015, so-called bonus pools have been established for each Regional Unit (RU). This was adapted in the Aegon Netherlands remuneration policy 2015. The Supervisory Board approved the 2015 variable remuneration targets for Identified Staff within the framework set in the AGGRF. It also approved payment of the 2014 variable remuneration to Identified Staff, with due regard to the assessments required under the AGGRF. This remuneration was within

Aegon's remuneration policy. No material retention, exit and welcome packages were granted at Aegon Nederland in 2015.

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

In 2015, there were no dismissals in the Management Team. For 2015, Aegon Nederland complies with the Aegon Group Global Remuneration Framework, article 4.11 principle on severance pay.

The 2015 variable remuneration targets for the Management Team and senior management include financial targets related to the results of Aegon Nederland and Aegon N.V.
Variable remuneration for the Management Team and other Identified Staff was paid 50% in cash and 50% in Aegon N.V. shares. In 2015, in accordance with Aegon Nederland's Remuneration policy, 40% of the 2014 variable remuneration was paid directly to members of the Executive Board and the remaining 60% was conditional. The 60% will be paid in three equal parts over a period of three years unless an ex-post risk assessment should indicate that there is a reason for not moving to an unconditional grant. This is in line with the Regulation on Sound Remuneration Policies.

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

For all groups of employees who are entitled to variable remuneration (Management Team and senior management) appropriate limits have been established for variable remuneration in relation to fixed salary. In 2015, none of the members of the Management Team were entitled to a variable remuneration of more than 100% of the annual salary.

Variable remuneration is based on performance on preset targets at the following three levels: (i) Aegon N.V., (ii) Aegon Nederland N.V. and (iii) personal. The targets are a mix of financial and non-financial performance criteria which are as objective as possible.

The financial criteria were adjusted for estimated risks and cost of capital when the actual performance was assessed.

Under the governance provisions in Aegon Nederland's remuneration policy, the Supervisory Board is authorized, following the results of an ex-post assessment, to reduce all variable remuneration granted conditionally to Identified Staff ('malus clause'). This malus clause on variable remuneration granted conditionally to Identified Staff was not applied in 2015.

The governance provisions in Aegon Nederland's remuneration policy state that the Supervisory Board is authorized to recover variable remuneration already paid out to members of the Management Team and senior management if it was granted on the basis of inaccurate financial or other information ('claw back' clause). In 2015, there was no claw back of variable remuneration from members of the Management Team or other Identified Staff.

Compliance with legislation and regulations

Aegon has a process in place to ensure that it is aware of and implements new regulations in good time. Being the first line of defense, the Executive Board and the Legal Affairs department are responsible for executing this process. From the second line, the Risk Management department including Compliance is involved in the process. A third line, Internal Audit, has a control role.

Research and Development

Considering the nature of the industry Aegon Schadeverzekering N.V. operates in, there is no specific Research and Development program.

IT

Several investments have been made with regard to the current vision of the Executive Board and the expected developments on IT:

- Development of Client overviews
- Development of Online/mobile applications
- Detachment of front and back offices (product administration)
- Agile Scrum way of working introduced within the organization
- Definition of the target architecture

The focus in the coming period will be on:

- Further flexibilization and reduction of costs (cloud solutions, replatforming mainframe)
- Improvement of risk management and data quality.
- Increase of the maturity of security processes
- In cooperation with the business further rationalisation of the IT landscape
- Further implementation of Agile way of working in the organization.
- Execution of the target architecture

It is expected the company will continue to invest in IT to further optimize the IT supporting our business operations.

Financial information

The loss after tax for 2015 was EUR 18.4 million, compared to a loss after tax of EUR 0.3 million in 2014.

The loss before tax is mainly caused by the non-strategic part of the portfolio (EUR 27 million) and retail business (EUR 11 million). The non-strategic portfolio has been sold in 2016 to Allianz. We refer to the subsequent event section.

This is partly offset by a profitable accident and health business (EUR 18 million) Measures implemented in the previous and current year are starting to pay off in this line of business. The results per product category within this line of business vary and are examined to be further optimized.

The earnings of Aegon Schadeverzekering are still sensitive for large claim experiences, making it difficult to absorb extraordinary claims. Although Aegon Schadeverzekering had a profitable claim experience in the income segment (AOV and WIA) in 2015, this was largely offset by and additional provisioning for non-strategic and disability portfolio.

Revenues

Total revenues decreased by EUR 30 million, mainly caused by a decrease in premium income for commercial business, authorized agents and co-insurance this part the portfolio is considered non-strategic. With regard to the accident and health insurance the decrease in premium income is mainly caused by lower production for WIA, AOV and sick leave. During the year actions were taken to improve the pricing of the products and improve the positing of the product line-up in the market.

Results from financial transactions

The result from financial transactions amounts to EUR 0.7 million (2014: EUR 15 million). This is mainly caused by de-risking of the portfolio in 2014 and the slightly negative result on derivatives, following the implementation of the OIS curve, which led to an increased ineffectiveness in hedge-accounting of EUR -/- 1.3 million (2014: EUR -/- 0.1 million).

Policyholder claims and benefits

Aegon Schadeverzekering's proactive approach to prevention related to Accident & Health insurance paid off in 2015, resulting in a lower number of new claims and increased number of revalidations. The implementation of "Gezonde aanpak" has been successfully launched in the market in 2014 and further implemented in 2015, resulting in a further decrease of EUR 9 million. Consequently, the policyholder claims and benefits are EUR 10.7 million lower than in 2014.

Commissions and expenses

The commissions and expenses have not significantly changed compared to 2014.

Solvency and financial position

Shareholders' equity at December 31, 2015 amounts EUR 249.3 million compared to EUR 280.6 million at year-end 2014. The decrease is mainly caused by net loss over 2015 (EUR 18.4 million) and a decrease in revaluation reserve of EUR 13.0 million caused by increased market interest rates.

Circumstances that impact future income and results

The main drivers of future income and results are market- and demographic developments. The expected sale of the commercial non-life insurance business in 2016 will also have an effect on the future income and results. Further details are included under the events after the balance sheet date.

Employees

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

Principal risks and uncertainties

Risk management is an inseparable part of day-to-day operations. Aegon Nederland 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 customers 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, employees of Aegon Levensverzekering N.V. helped people during the Pensioen3daagse to understand what they would 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 are helping disabled entrepreneurs with the start of their business.

Volunteering Friday
The offices in The Hague, Leeuwarden and Groningen organized a volunteering day to put into practice the provisions on volunteering laid down in the Collective Labour Agreement. In April, 45 employees joined an activity in cities where we have a branch office. In April 2016, the subsidiaries Bank (including Knab), UMG, and Nedasco will also participate.

Alzheimer's
There has been ongoing attention for our main social sponsorship - the Alzheimer Center of the VU University Medical Center. Customers and employees took part in the Alzheimer Rally, the Aegon Bike Challenge was organized for the third time and 60 employees joined the 'Dam to Dam Run' to promote the research on Alzheimer's. To promote our involvement with this disease we made a special Aegon-edition of the novel 'Still Alice' in 2015 to be sent to customers and other relations. The Alzheimer Center receives the returns from this gift.

Outlook

Outlook in general
The insurance industry is now in a period of major change, partly as a result of developments in the economy, but also because customers, legislators and regulators require it. This trend will continue in 2016.

In the pension market, the implementation of 'Algemeen Pensioen Fonds' (a new way of taking care of pension obligations, introduced by the Dutch legislator) will have a large impact on both customers and business practice. Measures on the housing market will have considerable consequences for the mortgage market itself, as well as for our customers and our operations. It is still uncertain if the brittle recovery of the economy, the housing market and the trust of consumers will persist in 2016. The lack of liquidity in the money markets and persistently low interests rates are still unlikely to reverse any time soon and/or will do so completely. The issues surrounding the affordability of pensions and healthcare in Dutch society are driving a discussion and developments among customers and providers alike. Intermediation and advice on financial products and services are expected to develop and change further in 2016 where more and more cross-channel solutions are expected to dominate the market.

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

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

Solvency
Aegon Nederland manages its capital at an overall level and at the level of the legal entities with the aim of having a healthy financial position, now and into the future, even after sustaining losses from adverse market conditions. During 2015 and 2014, Aegon Nederland maintained capital to the highest of the levels required by the regulator, Standard & Poor's requirements for 'very strong' capitalization and also according to additional self-imposed economical requirements. Each of these capital requirements is computed differently.

The Solvency I directives were applicable up to December 31, 2015. The insurance activities of Aegon Schadeverzekering are subject to the European Solvency I directives as implemented in the Netherlands. Aegon Schadeverzekering N.V.'s solvency ratio was 184% on December 31, 2015 (2014: 213%). Aegon Schadeverzekering held sufficient capital to meet the regulators and self-imposed requirements during 2015 and 2014.

Preparing for Solvency II
Solvency II came into effect on January 1, 2016. In anticipation of Solvency II, the Dutch Ministry of Finance made the European Insurance and Occupational Pensions Authority (EIOPA) Preparatory Guidelines for Solvency II reporting mandatory as of May 17, 2015, by amending the Decree on Prudential Rules for Financial Undertakings. This amendment to the Bpr Wft meant that insurance companies were required to submit an annual report for 2014 and two quarterly reports (for the second and third quarters of 2015) on the basis of the EIOPA guidelines in preparation for Solvency II. These mandatory preparatory Solvency II reports replaced the Theoretical Solvency Criteria (TSC) introduced on January 1, 2014. Solvency I quarterly reports were therefore no longer required as of the second quarter of 2015, and yearly reports are no longer required from 2016 onwards.
In the run up to Solvency II, all Dutch insurance companies were required to produce an Own Risk and Solvency Assessment (Eigen Risico Beoordeling or ERB) for 2015. Both the preparatory Solvency II reports and ERB were used as proxies for the ability of insurance companies (going forward) to comply with the applicable solvency requirements. Capital requirements until the date from which Solvency II came into force were based on Solvency I.
If Aegon Schadeverzekering N.V. is not compliant with the Solvency II requirements or does not expect to remain compliant with the applicable Solvency II requirements within one year, the approval of the DNB is required for it to be able to pay a dividend or to redeem capital. For this reason, the preparatory Solvency II reports also served as indications for the ability to pay a dividend or to redeem capital.

Solvency II
Aegon Schadeverzekering N.V. uses the Standard Formula to calculate the solvency position of its insurance activities under Solvency II. Aegon Schadeverzekering N.V. applies its own capital management policies, determining Aegon Schadeverzekering N.V.'s risk tolerances on the basis of self-imposed criteria. These policies may result in Aegon Schadeverzekering N.V., at its own election, but supervised by DNB, maintaining a buffer of own funds in addition to those required in according to Solvency II requirements. Pursuant to these self-imposed criteria, Aegon Schadeverzekering N.V. currently aims to hold a buffer in excess of the 100% minimum Solvency Ratio.

In-control framework

Internal control is becoming increasingly important in order to exceed the expectations of our customers, achieve our business targets and remain competitive. Developments that underline the importance of internal controls are regulatory changes, Solvency II and the transition to a new auditor. An In-control strategy will therefore be added to the Aegon NL strategy.
Challenged and supported by external experts, we determine the Aegon NL control philosophy and identify barriers that hinder us. We translate our In-control strategy into smart actions and make use of in-control activities that are already in progress. Our In-control strategy ensures that our control environment is fit for the purpose and meets the requirements of external and internal stakeholders.

Financial Market outlook

Our base-case macro-economic forecast remains largely in line with last year's projections. We expect the global economy to grow at a moderate pace, with the United States taking a leading role together with Europe. The latter is starting to show signs of recovery. Growth will be largely driven by three factors, i.e. 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 scenario, inflation will rise to 2% while economic growth will increase. This will slowly lead to increasing long-term interest rates. In this scenario, government bond returns will initially be positive but will eventually 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%, Asset-Backed Securities (ABS) 0.9%. The outlook for Dutch mortgages remains positive with an expected return of 3.3%. There are three reasons for the high spread on mortgages: 1) banks are increasing their capital ratios which reduces their ability to lend money 2) mortgages are an illiquid asset class which earns them a premium and 3) European legislation punishes relatively high loan-to-value ratios which are quite common in the Netherlands.

In last year's base-case scenario, we assumed a gradual rebound in underlying economic conditions, with steady economic growth. Also, we assumed it would take a significant period of time (5-10 years) for interest rates and economic conditions more generally to normalize.

Over 2015, the economic recovery in the US and UK has become more established. However, wage growth still remains weak, and central banks have indicated that the pace of monetary tightening will be gradual. The Eurozone recovery remains tentative. There are a number of macro-economic risks including a reversal in commodity-price declines, a potential Greek exit from the Eurozone and instability in the Ukraine and the Middle East. Despite this picture, however, we continue to believe that a gradual rebound scenario remains appropriate and reasonable.

For our Gross Domestic Product (GDP) growth projections, we have looked at Central Bank and International Monetary Fund (IMF) forecasts, in addition to internal Aegon Asset Management (AAM) in-house views. Based on these, we assume real GDP growth rates converging to 1.5% for the Netherlands (NL), 2.1% for the United Kingdom (UK) and 2.2% for the United States of America (US). For inflation, we are guided by target ranges of ECB, Bank of England and the Federal Reserve. All of these are targeting inflation rates at or slightly below 2% per annum. We assume that inflation will gradually converge towards these targets as the recovery is taking hold and the effect of commodity prices declines is wearing off. Given the weaker state of the Eurozone economy we assume a longer convergence period to reach a 2% rate. For UK, the Bank of England targets Consumer Price Index (CPI). However, for some purposes such as indexation of charges, Retail Price Index (RPI) is a more suitable measure. We set the RPI assumption equal to CPI plus 0.5%.

We expect interest rate rises to begin in the US by the end of 2015, followed by UK at end 2016 and Eurozone at end 2017.

Events after the balance sheet

At January 18, 2016 Aegon Schadeverzekering N.V./Aegon Nederland N.V. signed an agreement in which the commercial non-life insurance business, which includes the proxy and co-insurance run-off portfolios, will be sold to Allianz Benelux. On settlement the related technical provisions and corresponding assets (i.e. cash), will be transferred to Allianz Benelux. This sale is expected to be executed before July 1, 2016. This transaction follows the announcement last year that the commercial line of Aegon Nederland was no longer strategically core to the company's non-life business, and that market. The insurance portfolios in scope generate approximately EUR 90 million of reoccurring premiums and the related technical provision are approximately EUR 373 million.

Aegon Nederland will continue to invest in income protection and retail non-life insurance. The transaction is still subject to approval by the Dutch Central Bank (De Nederlandsche Bank) and the Dutch Authority for Consumers and Markets (Autoriteit Consument & Markt). The insurance portfolios in scope generate approximately EUR 90 million of reoccurring premiums and the related technical provision are approximately EUR 373 million.

Besides the announcement of the sale transaction of the commercial non-life insurance business mentioned above, there were no other events after the balance sheet date that are of material consequences for Aegon Schadeverzekering’s financial position as at December 31, 2015.

Composition of the Executive Board

In 2015, there were three changes to the composition of the Executive Board of AEGON Nederland N.V. At the beginning of 2015, the Board consisted of 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.
On October 1, 2015, Mr. R. Zomer was appointed as a member of the Executive Board and has been the new Chief Financial Officer of Aegon Nederland N.V as of that date. Mr. Koning and Mr. Spuijbroek left the Executive Board of Aegon Nederland N.V. on November 6, 2015.

The Executive Board currently consists of four members, i.e. Mr. M.B.A. Keim (chair), Mr. M.J. Edixhoven, Mr. R.M. van der Tol and Mr. R. Zomer.

The Hague, April 15, 2016

The Executive Board,

M.B.A. Keim

M.J. Edixhoven

R.M. van der Tol

R. Zomer

Report of the Supervisory Board

General

The Supervisory Board, consisting of five members, has the duty to supervise and advise the Executive Board on its management of the company.

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

In 2015, we performed our duties in close co-operation with the Executive Board and held eight meetings. Average attendance was 87,5%.

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

The quarterly reports and figures for Q4 2014 and Q1, Q2 and Q3 2015 and the Medium-term Plans for 2016-2019 were discussed during the regular meetings held in February, May, August and November 2015, respectively.

(Extra) subjects discussed during the meetings

- Solvency II (ORSA report and IMAP submission)
- MTP 2016-2018 and budget 2016
- Capital Management Policy
- DNB 'Emergo' Report
- DNB 'Focus' Report
- Execution of the strategy and new strategic developments
- PwC Management Letter 2014
- Annual reports 2014
- Succession planning/talent review
- Remuneration
- Proposition Approval Process
- 'Organizational Health' initiatives
- Aegon Non-Life revised strategy
- Changes within Aegon NL management, portfolios of the Aegon NL management and introduction of the Aegon NL management team
- Project Elli (Aegon longevity hedge)
- Developments and future of Aegon Nederland pension business and Dutch pension market

Gender diversity (article 2:166 Dutch Civil Code)

Aegon Nederland N.V.'s Executive Board has a limited number of members. On top of this, the stringent and particular requirements have restricting effects when searching for appropriate candidates. As a result, a balanced gender diversity is not easily achieved and was in fact not achieved in 2015. The selection and appointment of members of the Executive Board is based on expertise, skills and relevant experience. The Supervisory Board does consider gender diversity in view of the aim of balanced Executive Board composition.

Risk and Audit Committee

The Supervisory Board has formed a Risk and Audit Committee, whose members in 2015 were Mr. Jongsma (chairman), Mr. Vink and Mr. Button.

In 2015, the Audit and Risk Committee met five times. The CEO and CFO (Mr. Keim and Mr. Koning or Mr. Zomer) attended the meetings on behalf of Aegon Nederland N.V., along with the Internal Auditor, the manager of Risk Management & Compliance (CRO) and the managers of Capital Management & Policies and Financial Information Management & Reporting (or their substitutes). On behalf of PricewaterhouseCoopers Accountants N.V., Mr. Rondhout and Mr. Vermeulen both attended the four regular quarterly meetings.

On the agenda for the regular quarterly meetings, standing items were (i) the financial results of the previous quarter, quarterly reports on (ii) capital management, and (iii) regulatory developments, supplemented with quarterly reports from (iv) Risk Management & Compliance, and (v) Internal Audit, and the PricewaterhouseCoopers Accountants N.V. quarterly reports. The Risk and Audit Committee discussed and approved the audit plans of both Internal Audit and PricewaterhouseCoopers Accountants N.V., and discussed the Aegon Nederland Risk Appetite. Additional topics discussed during 2015 included among others the annual reports, developments related to and implementation of Solvency II (ORSA and IMAP submission), longevity hedging, developments with respect to accounting standards, mortgage valuation, SOx controls and the Management Letter. The Risk and Audit Committee reported – partly through the minutes of its meetings – on its findings to the Supervisory Board.

Compensation and Nomination Committee

The Compensation Committee, whose members are Mr. Button and Mr. Vink, physically met once in March 2015 and there was also a conference call meeting. In these meetings, the remuneration of the Executive Board of Aegon Nederland was discussed and approved, as well as the new general remuneration policy for Aegon Nederland N.V. Furthermore, the Supervisory Board approved the revised 'Remuneration Policy 2015' and the remuneration of 'Identified Staff' of Aegon Nederland N.V.

Members of the Supervisory Board

In 2015, the Supervisory Board consisted of five members.

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

	Year of first appointment	(Re-) Appointment	Resigns
J.A.J. Vink	2006	May 8, 2014	2018
L. Jongsma	2003	June 22, 2012	2016*
D. Terpstra	2007	September 15, 2015	2019
G.T. Kepecs	2012	September 1, 2012	2016
D.D. Button	2013	November 7, 2013	2017

*Per April 1, 2016 Mr. L. Jongsma resigned from the Supervisory Board.

The Hague, April 15, 2016

The Supervisory Board,

J.A.J. Vink

D.D. Button

G.T. Kepecs

D. Terpstra

Financial statements 2015 of Aegon Schadeverzekering N.V.

Statement of financial position

(before profit appropriation)

	Note	31-12-2015	31-12-2014
Amounts in EUR thousand			
Assets			
Investments	5	1.553.996	1.530.513
Derivatives	6	205	-
Long-term loans and group loans	7	146.000	145.000
Reinsurance assets	8	14.379	17.195
Other assets and receivables	9	33.123	41.962
Cash and cash equivalents	10	102.874	118.463
Total assets		**1.850.578**	**1.853.132**
Equity and liabilities			
Equity	11		
- Share capital		30.858	30.858
- Share premium		116.808	116.808
- Revaluation reserves		34.084	47.050
- Retained earnings		85.874	85.589
- Net income / (loss)		-18.372	285
		249.252	**280.590**
Insurance contracts	12	1.443.703	1.417.340
Derivatives	6	14.559	14.997
Long-term borrowings and group loans	13	100.000	100.000
Deferred tax liabilities	14	14.933	19.339
Other liabilities and accruals	15	28.130	20.867
Total liabilities		**1.601.325**	**1.572.542**
Total equity and liabilities		**1.850.578**	**1.853.132**

Income statement

	Note	2015	2014
		For the year ended December 31	
Amounts in EUR thousand			
Revenues			
Premium income	16	707.127	734.010
Investment income	17	25.211	28.794
Fee and commission income		331	203
Total revenues		**732.669**	**763.006**
Income from reinsurance ceded		-1.626	-2.311
Results from financial transactions	18	732	15.002
Total income		**731.774**	**775.698**
Charges			
Premiums to reinsurers	16	9.936	16.043
Policyholder claims and benefits	19	501.237	511.963
Commissions and expenses	20	245.297	246.798
Impairment charges	21	270	260
Interest charges and related fees	22	-393	287
Total charges		**756.348**	**775.350**
Income / (loss) before tax		**-24.573**	**347**
Income tax	23	6.202	-62
Net income / (loss)		**-18.372**	**285**
Net income / (loss) attributable to the parent company		**-18.372**	**285**

Statement of comprehensive income

	Note	For the year ended December 31 2015	2014
Amounts in EUR thousand			
Net income		**-18.372**	**285**
Items that will not be reclassified to profit or loss:		-	-
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	11	-15.322	60.169
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	11	-2.093	-14.296
Income tax relating to items that may be reclassified	11	4.450	-11.452
Total other comprehensive income for the period		**-12.966**	**34.421**
Total comprehensive income / (loss)		**-31.338**	**34.706**
Total comprehensive income attributable to the parent company		**-31.338**	**34.706**

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

Statement of changes in equity

2015

Amounts in EUR thousand	Share capital	Share premium	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	30.858	116.808	47.050	85.589	285	280.590
Net income / (loss) prior year retained	-	-	-	285	-285	-
Net income / (loss) current year	-	-	-	-	-18.372	-18.372
Other comprehensive income / (loss)	-	-	-12.966	-	-	-12.966
Total comprehensive income / (loss)	**-**	**-**	**-12.966**	**285**	**-18.657**	**-31.338**
Dividends paid on common shares	-	-	-	-	-	-
At December 31	**30.858**	**116.808**	**34.084**	**85.874**	**-18.372**	**249.252**

2014

Amounts in EUR thousand	Share capital	Share premium	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	30.858	116.808	12.628	102.567	-16.978	245.884
Net income / (loss) prior year retained	-	-	-	-16.978	16.978	-
Net income / (loss) current year	-	-	-	-	285	285
Other comprehensive income / (loss)	-	-	34.421	-	-	34.421
Total comprehensive income / (loss)	**-**	**-**	**34.421**	**-16.978**	**17.263**	**34.706**
Dividends paid on common shares	-	-	-	-	-	-
At December 31	**30.858**	**116.808**	**47.050**	**85.589**	**285**	**280.590**

Cash flow statement

Amounts in EUR thousand	Note	For the year ended December 31 2015	2014
Income / (loss) before tax		**-24.573**	**347**
Results from financial transactions	18	-732	-15.002
Amortization and depreciation	20	12.071	13.354
Impairment losses / (reversals)	21	270	260
Adjustments of non-cash items		**11.609**	**-1.388**
Insurance and investment liabilities	12/5	29.180	30.770
Accrued expenses and other liabilities	15	7.396	-2.731
Accrued income and prepayments	9	8.838	-1.730
Changes in accruals		**45.414**	**26.309**
Purchase of investments (other than money market investments)	5	-250.921	-687.993
Disposal of investments (other than money market investments)	5	197.770	439.049
Disposal of derivatives	6	-	-400
Change in group loans	7	-1.000	-15.000
Cash flow movements on operating items not reflected in income		**-54.151**	**-264.343**
Tax (paid) / received	23	6.112	143
Net cash flows from operating activities		**-15.588**	**-238.933**
Net cash flows from investing activities		**-**	**-**
Net cash flows from financing activities		**-**	**-**
Net increase / (decrease) in cash and cash equivalents		**-15.588**	**-238.933**
Cash and cash equivalents at the beginning of the year	10	118.463	357.395
Cash and cash equivalents at the end of the year	10	**102.874**	**118.463**

The cash flow statement is prepared according to the indirect method. Included in the net increase/ (decrease) in cash and cash equivalents are:

	2015	2014
Interest received / (paid)	27.445	24.648
Dividend received	233	179

Notes to the financial statements

1. General information

Aegon Schadeverzekering N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and registered at the Chamber of Commerce of The Hague under its registered address at Aegonplein 50, 2591 TV The Hague. Aegon Schadeverzekering N.V. (or Aegon Schadeverzekering) is a 100% subsidiary of Aegon Nederland N.V. in The Hague. The ultimate parent of the Aegon-group is Aegon N.V. in The Hague.

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

2. Summary of significant accounting policies

2.1. Basis of presentation

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 financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2015 is provided below.

The financial statements are prepared in euro and all values are rounded to the nearest thousand except when otherwise indicated. The consequence is that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income, shareholders' equity or earnings per share.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred policy acquisition costs, value of business acquired and other purchased intangible assets, goodwill, policyholder claims and benefits, insurance guarantees, pension plans, income taxes and the potential effects of resolving litigation matters. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU ‘carve out’ of IFRS.

The financial statements of Aegon Schadeverzekering were approved by the Executive Board and by the Supervisory Board on April 15, 2016. The financial statements will be put for adoption to the Annual General Meeting of Shareholders on April 15, 2016. The shareholders meeting can decide not to adopt the financial statements but cannot amend them.

2.1.1. *Adoption of new IFRS accounting standards*

New standards and amendments to existing standards become effective at the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2015, the following amendments to existing standards issued by the IASB became mandatory but are not currently relevant or do not significantly impact the financial position or financial statements:

- IAS 19 Employee Benefits - Amendment Employee Contributions;
- Annual improvements 2010-2012 Cycle; and
- Annual improvements 2011-2013 Cycle.

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

2.1.2. *Future adoption of new IFRS accounting standards*

For the following standards, amendments to existing standards and interpretations, published prior to January 1, 2016, Aegon Nederland elected not to early adopt, though instead these will be applied in future years:

- IFRS 9 Financial Instruments;and
- IFRS 15 Revenue from Contracts with Customers.

These standards have not yet been endorsed by the European Union.

<u>IFRS 9 Financial Instruments</u>

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 and all previous versions of IFRS 9. Under IFRS 9 Classification and Measurement, financial assets are measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are measured at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the impairment component, the IASB included requirements for a credit loss allowance or provision which should be based on expected losses rather than incurred losses.

Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. However, at the time of issuance of the new standard, the IASB said it would consider potential challenges arising if IFRS 9 is implemented before the new insurance contracts standard (IFRS 4 Phase II - which is at an advanced stage of development but it is expected that it will not become effective before 2021). Subsequent discussions at the IASB have resulted in a proposal for temporary deferral for insurers which was further described in an Exposure Draft: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts issued by the IASB in December 2015. The comment period ended on February 8, 2016. The measures that the Exposure Draft proposes to introduce into IFRS 4 are:

- The overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss to remove any additional accounting volatility that may arise from qualifying financial assets, and
- The deferral approach – an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts.

Those new measures would supplement other measures, including the flexibility offered by the existing IFRS 4 in choosing an accounting policy for insurance contracts (e.g. an option to adjust the measurement of insurance contracts to reduce accounting volatility) and the transition reliefs to be included in the new insurance contracts Standard for entities that apply that Standard after they apply IFRS 9. At this stage it is not yet clear whether Aegon is planning or able to use the overlay or deferral approach. The implementation of IFRS 9, if and when endorsed by the EU, is expected to have a significant impact on shareholders' equity, net result and/or other comprehensive income and disclosures. The full impact, however, will only become clear after full assessment of the standard.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18 Revenue, as well as other IFRIC and SIC interpretations regarding revenue unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The standard outlines the principles an entity shall apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will be effective for Aegon Schadeverzekering on January 1, 2018, using either of two methods: a full retrospective approach with certain practical expedients or a modified retrospective approach with the cumulative effect of initially applying this standard recognized at the date of initial application with certain additional disclosures. Aegon Schadeverzekering is evaluating the impact that adoption of this standard is expected to have on Aegon Schadeverzekering's financial statements. The full impact will only be clear after full assessment of the standard.

The following new standards and amendments to existing standards and interpretations, published prior to January 1, 2016, which are not yet effective for Aegon Schadeverzekering nor early adopted, are not expected to significantly impact the financial position or financial statements:
- IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception*;
- IFRS 11 Joint Arrangements - Amendment Accounting for Acquisition of Interests in Joint Operations;
- IFRS 14 Regulatory Deferral Accounts*;
- IAS 1 - Amendment Disclosure Initiative;
- IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements;
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization; and
- Annual improvements 2012-2014 Cycle.

* Not yet endorsed by the European Union.

2.1.3. Prior period error

During 2015 it was noted that deferred tax assets and liabilities within the fiscal unity were not netted for presentation purposes in the balance sheet. Comparative figures have been restated to present the net amount in the balance sheet. The gross amounts are disclosed in note 14 'Deferred Tax' for both current year and comparatives.

Furthermore, the intercompany financing arrangement between Aegon Hypotheken and Aegon Schadeverzekering amounting to EUR 100 million (2014: EUR 100 million) for both "Long-term loans and group loans" (note 7) and Long-term borrowings and group loans (note 13) was incorrectly netted in the 2014 financial statements, since netting requirements were not (and still are not) met. This has been corrected in these financial statemements.

Both prior period errors did not have an effect income or equity.

2.1.4. Changes in presentation

As of 2015 in the balance sheet the ‘investments in investment funds’ are part of the ‘investments’.

2.2. Foreign exchange translation

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

At the balance sheet date, monetary assets and monetary liabilities in foreign currencies and equity instruments in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

The impact of foreign currency on the financial statements is considered immaterial as virtually all transactions take place in euro.

2.3. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon Schadeverzekering has a current legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

2.4. Investments

General account investments comprise financial assets (excluding derivatives).

Financial assets, excluding derivatives are recognized on the trade date when Aegon Schadeverzekering becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the investment strategy of Aegon Schadeverzekering; and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Schadeverzekering designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments, that are not quoted in an active market and that Aegon Schadeverzekering does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale.

All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and financial assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount and minus any reduction for impairment.

The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

The 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 and when Aegon Schadeverzekering retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full without delay to a third party and either has transferred the asset and substantially all the risks and rewards of ownership, or has neither transferred nor retained all the risks and rewards but has transferred control of the asset.

Financial assets of which Aegon Schadeverzekering has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Aegon Schadeverzekering's continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders' equity is also recognized in the income statement.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

2.5. Derivatives

2.5.1. Definition

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

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

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

2.5.2. Measurement

All derivatives recognized on the statement of financial position are carried at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible. Fair value changes are recognized in the income statement.

2.5.3. Hedge accounting

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

Aegon Schadeverzekering currently only applies hedge accounting for fair value hedges.

<u>Fair value hedges</u>
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the profit and loss account over the remaining duration of the original hedge or recognized directly when the hedged item is derecognized.

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

2.6. Reinsurance assets

Reinsurance contracts are contracts entered into by Aegon Schadeverzekering in order to receive compensation for losses on contracts written by Aegon Schadeverzekering (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Aegon Schadeverzekering is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying insurance contracts will continue to be reported on the statement of financial position during the run-off period of the underlying business.

Reinsurance premiums, commissions and claim settlements are accounted for in the same way as the original contracts for which the reinsurance was concluded. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

2.7. Other assets and receivables

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

Other assets and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Deferred policy acquisition costs (DPAC) relates to all insurance contracts and represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts. Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on the remaining duration of related non-life contracts with an average remaining amortization period of less than one year. For all products, DPAC is assessed for recoverability at least annually as part of the liability adequacy test for each reporting period. The portion of DPAC that is determined not to be recoverable is charged to the income statement. DPAC is derecognized when the related contracts are settled or disposed of.

2.8. Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements.

Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

2.9. Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinite useful life that are not amortized are tested at least annually.

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that Aegon Schadeverzekering’s assessment of an issuer’s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Any of these situations could result in a charge against the income statement to the extent of the impairment charge recorded.

2.9.1. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. For goodwill and intangible assets with an indefinite life, an impairment test is performed at least once a year or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset’s value in use and its fair value less cost of disposal. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.

Impairment losses are charged to shareholders' equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

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

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets' recoverable amounts.

2.9.2. *Impairment of debt instruments*

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.

Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed what the amortized cost would have been at the reversal date, had the impairment not been recognized.

2.9.3. *Impairment of equity instruments*

For equity instruments, objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.
A significant or prolonged decline in fair value below initial cost is also considered objective

evidence of impairment and results in a loss being recognized in the income statement. Significant or prolonged decline is defined by Aegon Schadeverzekering as an unrealized loss position for generally more than six months or a fair value below 80% of the cost price of the investment. Equity investments are impaired to the asset's fair value and any unrealized gain or loss previously recognized in shareholders' equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement.
If an available-for-sale equity security is impaired based upon Aegon Schadeverzekering's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon Aegon Schadeverzekering's impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments. Impairment losses on equity instruments cannot be reversed.

2.9.4. Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer's current and expected future financial conditions plus any collateral held in trust for Aegon's benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognized in the income statement.

2.10. Equity

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

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

2.11. Insurance contracts

Insurance contracts are accounted for under IFRS 4 – Insurance Contracts. In accordance with this standard, Aegon Schadeverzekering continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by IFRS 4 for standards effective subsequent to adoption. Aegon Schadeverzekering applies in general accounting policies for insurance liabilities to the extent that it was allowed under Dutch Accounting Principles. Any changes in accounting policy are made in accordance with IFRS 4.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by Aegon Schadeverzekering prior to the transition to IFRS and with consideration of changes to standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. The valuation methods are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

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

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled.

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

a) the amount of revenue can be measured reliably:

The entity has agreed to the following with the other parties to the transaction:

- each party's enforceable rights regarding the service to be provided and received by the parties;
- the consideration to be exchanged; and
- the manner and terms of settlement,

From Aegon Schadeverzekering's point of view, the date of the offer would be the date Aegon Schadeverzekering agreed to the above. However, this is not necessarily the date at which both parties have agreed to the terms. This could be but is not limited to:

- a signed and returned offer;
- an acceptance email from the client;
- the receipt of first deposits

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

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

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

2.11.1. Shadow accounting

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

2.11.2. Non-life insurance contracts

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

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

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to Aegon Schadeverzekering. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation.

Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied when measuring these insurance liabilities when there is a high level of certainty concerning the amount and settlement term of the cash outflows. The margin for risk represents the cost of capital held for unhedgeable financial and underwriting risks.

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

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

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

Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

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

2.12. Long-term borrowings and group loans

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

2.13. Assets and liabilities relating to employee benefits

Aegon Schadeverzekering itself does not have employees. The assets and liabilities arising from employee benefits for staff working for Aegon Schadeverzekering are recognized in the financial statements of Aegon Nederland and recharged to Aegon Schadeverzekering based on the services that are rendered by the employees for Aegon Schadeverzekering.

2.14. Tax assets and liabilities

Tax assets and liabilities are amounts payable to and receivable from Aegon N.V., since Aegon N.V. is the head of the fiscal unity.

2.14.1. *Current tax assets and liabilities*

Tax assets and liabilities for current and prior periods are measured at the amount expected to be received from or paid to the taxation authorities, applying the tax rates that have been enacted or substantively enacted by the reporting date.

Aegon Schadeverzekering is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Schadeverzekering is jointly and severally liable for all tax liabilities of the entire tax group. Current taxes are settled in current account with the parent company.

2.14.2. *Deferred tax assets and liabilities*

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognized for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon Schadeverzekering's deferred tax positions periodically to determine if it is probable that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectations of Aegon Schadeverzekering concerning the manner of recovery or settlement.

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

2.15. Other liabilities and accruals

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

2.16. Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.17. Premium income and premium outgoing reinsurance

Gross premiums from non-life insurance are recognized as revenue when they become receivable. Premium loadings for instalment payments and additional payments by the policyholders towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense.

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

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

2.18. Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend income on financial assets carried at fair value through profit or loss. Investment income also includes dividends accrued and rental income due, as well as fees received for security lending.

2.19. Fee and commission income

Fees and commissions from investment management services and mutual funds, services where Aegon Schadeverzekering acts as service provider (including mortgage loan fee business) and from sales activities are recognized as revenue over the period in which the services are performed or for sales activities where services have been rendered.

2.20. Benefits outgoing reinsurance

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

2.21. Policyholders claims and benefits

Policyholders claims and benefits consist of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

2.22. Results from financial transactions

Results from financial transactions include:

2.22.1. Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

2.22.2. Realized gains and losses on financial investments

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

2.22.3. Net fair value change of derivatives

All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

2.23. Commission and expenses

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

2.24. Interest charges and related fees

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

2.25. Income tax

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

2.26. Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

3. Critical accounting estimates and judgment in applying accounting policies

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

3.1. Continuity

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

3.2. Changes in estimates

In 2014, Aegon updated the fair value calculation of its Dutch mortgage loans based on additional market observable data. In the third quarter of 2015 the fair value calculation was further refined and completed. The calculation now also includes information from consumer mortgage rates. This resulted in a decrease (2014: increase) in the discount rate used to present value the future cash flows, mainly driven by a decrease in mortgage rates. The carrying value, at amortized cost, of Dutch mortgage loans on Aegon's balance sheet has not been impacted by the update of the fair value calculation. The fair value of Dutch mortgage loans has been impacted positively with EUR 13 million.

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

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

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

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

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

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

Actuarial assumption and model updates

Assumptions are reviewed periodically, typically in the third quarter, based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions. Similarly, the models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology. During 2015, Aegon Schadeverzekering implemented actuarial assumption and model updates negatively impacting the margin in the Liability Adequacy Test by EUR 8 million.

3.4. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Schadeverzekering of determining fair value and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon Schadeverzekering can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

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

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

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

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

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities; the derivation of fair value is more judgmental. An instrument is classified 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 at arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. The use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

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

3.5. Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forwards of unused tax losses and carry forwards of unused tax credits when in the judgment of management it is more likely than not that Aegon Schadeverzekering will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews the deferred tax positions of Aegon Schadeverzekering periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

4. Risk management

4.1. Governance

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

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

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

4.2. Capital and solvency

Aegon Nederland manages its capital at an overall level and at the level of the legal entities with the aim of having a healthy financial position, now and into the future, even after sustaining losses from adverse market conditions. During 2015 and 2014, Aegon Nederland maintained capital to the highest of the levels required by the regulator, Standard & Poor's requirements for 'very strong' capitalization and also according to additional self-imposed economical requirements. Each of these capital requirements is computed differently.

The insurance activities of Aegon Schadeverzekering are subject to the European Solvency I directives as implemented in the Netherlands. Aegon Schadeverzekerings' solvency ratio was 184% on December 31, 2015 (2014: 213%). Aegon Schadeverzekering held sufficient capital to meet the regulator's and self-imposed requirements during 2015 and 2014.

4.3. Product information

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

4.3.1. Insurance products for general account

Accident and health insurance

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

General insurance

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

4.4. The risk management approach

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

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

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

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

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

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

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

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

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

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

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

4.4.1. *IFRS sensitivities*

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

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon Schadeverzekering's accounting policies[1]. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analyses provided below.

The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on prudent assumptions. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and equity. Aegon Schadeverzekering has classified a significant part of its investment portfolio as 'available-for-sale', which is one of the main reasons why the economic shocks tested have a different impact on net income than on equity. Unrealized gains and losses on these assets are not recognized in the income statement but are recorded directly into the revaluation reserves in equity, unless impaired. As a result, economic sensitivities predominantly impact equity but leave net income unaffected.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon Schadeverzekering's future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon Schadeverzekering's future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

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

4.4.2. *Currency exchange rate risk*

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

4.4.3. *Interest rate risk*

Aegon Schadeverzekerings' policy is that the interest rate risk on its balance sheet must be kept as limited as possible on market value principles. Under current IFRS, this means that movements in interest rates may lead to movements in the (IFRS) capital as a result of the accounting mismatch, while the capital on market consistent policies is much less sensitive to interest rate movements. The IFRS result may also be sensitive to movements in interest rates despite hedging risks. Persistent low interest rates will lead to a lower return on reinvestments. Coupon income on existing investments will not change in those circumstances.

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

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

Interest rates at the end of each of the last five years

	2015	2014	2013	2012	2011
3-month US Libor	0,61%	0,26%	0,25%	0,31%	0,58%
3-month Euribor	-0,13%	0,08%	0,29%	0,19%	1,36%
10-year US Treasury	2,27%	2,17%	3,04%	1,78%	1,89%
10-year Dutch government	0,89%	0,84%	2,35%	1,61%	2,39%

Sensitivity of interest rates

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curves on net income and equity. In general, increases in interest rates have a negative effect on shareholders' equity and a positive impact on net income in the current year because it results in unrealized losses on investments that are carried at fair value. The rising interest rates would also cause the fair value of the available-for-sale bond portfolio to decline and the level of unrealized gains could become too low to support recoverability of the full deferred tax asset triggering an allowance charge to income. The offsetting economic gain on the insurance is not fully reflected in the sensitivities because not any of these liabilities are measured at fair value. Over time, the medium-term reduction in net income due to rising interest rates would be offset by higher net income in later years, all else being equal. Therefore, higher interest rates are not considered a long-term risk to Aegon Schadeverzekering.

Parallel movement of yield curve

Parallel movement of yield curve	2015		2014	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-1.010	-33.628	-1.025	-38.477
Shift down 100 basis points	1.010	33.628	1.025	38.477

Parallel movements of the yield curve impacts the fair value of the fixed income portfolio. As the fixed income portfolio is classified as ‘available for sale’, these fair value movements only impact equity.
Aegon Schadeverzekering N.V. holds swaps to hedge the interest rate risk of the mortgage loan portfolio and applies fair value hedge accounting (refer to 2.5.3) to minimize the impact of fair value movements on net income. However, the floating leg of the swaps included in the hedge relation causes ineffectiveness which impacts net income.

4.4.4. *Credit risk*

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon Schadeverzekering typically bears the risk for investment performance which is equal to the return of principal and interest. Aegon Schadeverzekering is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturn of the economy, downturn in real estate values, operational failure and fraud. During financial downturns, Aegon Schadeverzekering can incur defaults or other reductions in the value of these securities and loans, which could have a materially adverse effect on Aegon Schadeverzekering's business, results of operations and financial condition.

The tables that follows shows the maximum exposure of Aegon Schadeverzekering to credit risk from investments in general account financial assets and reinsurance assets, collateral held and net exposure. Please refer to note 25 for further information on capital commitments and contingencies, which may expose Aegon Schadeverzekering to credit risk. The other equity investments in common shares comprise investments in entities where Aegon Schadeverzekering does not have significant influence and which relate to interests where it participates because of its insurance activities. These investments are not listed and as such net income and equity are not influenced by changes in equity prices with respect to these investments.

Positions for general account in the balance sheet

2015 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees	Master netting agreement	Surplus collateral	Total	
Shares	358.308	-	-	-	-	-	-	-	358.308
Debt securities	630.035	-	-	-	-	-	-	-	630.035
Mortgage loans	447.178	4.015	-	615.156	10.098	-	-213.843	415.426	31.752
Private loans	116.092	-	-	-	-	-	-	-	116.092
Other loans	2.383	-	-	-	-	-	-	-	2.383
Derivatives with pos. values	205	-16.000	-	-	-	14.559	-	-1.441	1.646
Reinsurance assets	14.379	-	-	-	-	-	-	-	14.379
Total	**1.568.580**	**-11.985**	**-**	**615.156**	**10.098**	**14.559**	**-213.843**	**413.985**	**1.154.595**

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

Shares: mainly money market and short term investments
The collateral reported for the money market and short term investments are related to tri-party repurchase agreements (repos). Within tri-party repo's Aegon Nederland invests under short term reverse repurchase agreements and the counterparty posts collateral to a third party custodian. The collateral posted is typically high-quality short term securities and is only accessible to Aegon Nederland in the event the counterparty defaults.

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 are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

A substantial part of Aegon Schadeverzekering's Dutch residential mortgage portfolio benefits from guarantees by a Dutch government-backed trust (Stichting Waarborgfonds Eigen Woning) through the Dutch Mortgage Guarantee program (NHG). These guarantees cover all principal losses, missed interest payments and foreclosure costs incurred upon termination and settlement of defaulted mortgage loans when lender-specific terms and conditions of the guarantee are met. When not fully met, the trust may pay claims in part or in full, depending on the severity of the breach of terms and conditions. For each specific loan, the guarantee amortizes in line with an equivalent annuity mortgage. When the remaining loan balance at default does not exceed the amortized guarantee, it covers the full loss under its terms and conditions. Any loan balance in excess of this decreasing guarantee profile serves as a first loss position for the lender. For NHG-backed mortgage loans originated after January 1st 2014, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

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

Derivatives
The master netting agreements column in the table relates to derivative liability positions which are used in Aegon's credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

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

Credit risk management

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

Aegon Schadeverzekering operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are set by Aegon N.V. and also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon Schadeverzekering's internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. The policy is reviewed regularly. During 2015 there has been one breach regarding the CNLP, where for one counterparty the CNLP limit of EUR 125 million was exceeded by EUR 1 million. This was noted during our internal risk procedures and has been remediated within one week.

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

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

in EUR million	Limit 2015	Limit 2014
AAA	270	270
AA	270	270
A	190	190
BBB	125	125
BB	75	75
B	38	38
CCC or lower	15	15

The limits in this table exclude sovereign exposures that are rated A or above. For these exposures Aegon N.V. has set limits which are only applicable and reported at a consolidated Aegon N.V. level[2]. Sovereign exposures (regardless of rating) that are issued by the government of the functional currency of the Regions' business and also owned in that currency and sovereign exposures that are rated AAA by all three major agencies (S&P, Fitch and Moody's) are exempt from the policy.

4.4.5. Credit rating

The ratings distribution of general account portfolios of Aegon Schadeverzekering, including reinsurance assets, is presented in the next table, organized by rating category and broken out by assets which are valued at fair value and assets which are valued at amortized cost. As of 2014, Aegon Schadeverzekering has changed the rating hierarchy to align more closely with the CNLP as maintained within Aegon N.V. In previous years the disclosure of ratings followed a hierarchy of S&P, Moody's, Fitch, Internal and National Association of Insurance Commissioners (NAIC). Under the CNLP a composite rating is used, which is based on a combination of the ratings of the constituents mentioned. The rating used is the lower of the external rating and the internal rating. This change in methodology did not impact net income, total assets or total liabilities.

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

Investments for general account by rating

2015	Amortized cost	Fair value	Reinsurance assets	Total 2015
AAA	116.092	316.145	-	432.236
AA	-	92.660	9.359	102.018
A	-	68.439	4.624	73.063
BBB	-	145.605	-	145.605
BB	-	7.187	-	7.187
Assets not rated	449.560	358.513	396	808.470
Total on balance credit exposure	**565.652**	**988.549**	**14.379**	**1.568.580**
Of which past due and / or impaired assets	7.622	-	-	7.622

2014	Amortized cost	Fair value	Reinsurance assets	Total 2014
AAA	9.000	383.259	-	392.259
AA	-	98.920	11.343	110.263
A	-	89.589	5.615	95.203
BBB	-	151.609	-	151.609
BB	-	-	-	-
Assets not rated	490.193	307.943	238	798.374
Total on balance credit exposure	**499.193**	**1.031.320**	**17.195**	**1.547.708**
Of which past due and / or impaired assets	7.429	-	-	7.429

The ‘Assets not rated’ category relates specific to equities at fair value and other financial assets at amortized cost (mainly mortgage loans).

4.4.6. Credit risk concentration

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

Credit risk concentration – debt securities and money market investments

	2015	2014
ABSs- Collateralized Debt Obligations (CDOs)	63.581	59.968
ABSs- Other	373	4.315
Total investments in unconsolidated structured entities	**63.954**	**64.283**
Financial - Banking	39.460	8.176
Financial - Other	5.827	5.556
Industrial	168.216	186.965
Utility	26.640	29.721
Sovereign exposure	325.939	428.676
Total	**630.035**	**723.376**
Of which past due and / or impaired assets	-	-

Credit risk concentration – mortgage loans

	2015	2014
Apartment	61.351	68.405
Other commercial	1.943	2.653
Residential	383.884	416.848
Total	**447.178**	**487.905**
Of which past due and / or impaired assets	7.594	7.429

Fair value of the mortgage loan portfolio:	2015	2014
Fair value mortgage loans	504.363	545.256
The LTV was approximately	73,8%	76,6%
The part of the portfolio that is government guaranteed	77,4%	77,8%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,6%	0,7%
Impairments during the year	270	179

Unconsolidated structured entities

Aegon Schadeverzekering’s investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented in the line item 'Investments' of the statement of financial position. Aegon Schadeverzekering’s interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Schadeverzekering does not have loans, derivatives or other interests related to these investments. The maximum exposure to loss for these investments is therefore equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon Schadeverzekering invests primarily in senior notes. Additional information on credit ratings for Aegon Schadeverzekering’s investments in unconsolidated structured entities are disclosed in the sections that describe per category of debt securities the composition and impairment assessments. The composition of the structured entities portfolios of Aegon

Schadeverzekering are widely dispersed looking at the individual amount per entity, therefore Aegon Schadeverzekering only has non-controlling interests in unconsolidated structured entities.

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

2015	Number of entities	Carrying amount
EUR 0 < 10 mln	22	63.954
> EUR 10 mln	-	-
At December 31	**22**	**63.954**

2014	Number of entities	Carrying amount
EUR 0 < 10 mln	21	64.283
> EUR 10 mln	-	-
At December 31	**21**	**64.283**

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

	2015				
Type of asset in unconsolidated entity	Commission and fees	Interest income	Realized gains and losses	**Total**	**Investments**
Asset Backed Securities	-	1.210	1	**1.210**	63.581
ABS's - Other	-	3	-1	**2**	373
Total	**-**	**1.213**	**-**	**1.213**	**63.954**

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

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

4.4.7. *Past due and impaired financial assets*

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

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

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

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

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

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

<u>Impaired financial assets</u>

	2015	2014
Mortgage loans	6.367	6.612
Other	28	-
Total	**6.395**	**6.612**

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 343 thousand (2014: EUR 358 thousand).

<u>Past due but not impaired financial assets</u>

2015	0-6 months	> 6 months	2015
Mortgage loans	1.227	-	1.227
Total	**1.227**	**-**	**1.227**

2014	0-6 months	> 6 months	2014
Mortgage loans	817	-	817
Total	**817**	**-**	**817**

4.4.8. *Derivatives risk*

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

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

4.4.9. *Liquidity risk*

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

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

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

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

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

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

Liquidity risk management ensures that the coverage ratio under stressed liquidity scenario is at 1.33 for a 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.

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

Available liquidity
Available liquidity is determined by modeling the asset cash flows. These include but are not limited to:
- Diarized (contractual) repayments and coupon payments;
- Expected advance payments on certain categories of assets, such as early repayment of mortgage loans;
- Expected extensions of maturity on certain categories of assets;
- Sales proceeds on assets taking into account a maximum haircut of 1% compared with the current mid-rate.

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

Required liquidity
The required liquidity is computed by modeling the cash flows from liabilities. These include but are not limited to:
- Diarized (contractual) repayments at maturity;
- Diarized benefits and claims;
- Non-diarized full or partial withdrawal of assets at call;
- Use of policy loans;
- Periodic premium payments and potential changes in them;
- New business activities.

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

Results of the coverage ratios
Aegon Schadeverzekering holds EUR 677 million (2014: EUR 730 million) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The afore mentioned amounts are based upon Aegon Schadeverzekering's internally used definitions when testing the liquidity.

The coverage ratio is calculated after modeling the expected cash flows for assets and liabilities for each period of up to two years. The results of the coverage ratio, available liquidity divided by the required liquidity, show that Aegon Schadeverzekering had sufficient liquidity in different scenarios and for all tested periods at year-end 2015. Aegon Schadeverzekering's coverage ratio at year-end 2015 was not below the warning nor the fail level for stressed liquidity scenario.

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

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

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Schadeverzekering has to assume that notice is given immediately and the repayment is presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, if the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

2015	On demand	< 1 year	1 < 5 year	5 < 10 year	Total 2015
Long-term loans and group loans	-	-	100.000	-	100.000
Other financial liabilities	16.204	11.062	865	-	28.130
Total	**16.204**	**11.062**	**100.865**	**-**	**128.130**

2014	On demand	< 1 year	1 < 5 year	5 < 10 year	Total 2015
Long-term loans and group loans	-	-	100.000	-	100.000
Other financial liabilities	552	19.585	730	-	20.867
Total	**552**	**19.585**	**100.730**	**-**	**120.867**

Expected undiscounted cash flows relating to insurance and investment contracts

Aegon Schadeverzekering's liquidity management is based on expected claims, benefit payments rather than on the contractual maturities. The projected cash benefit payments in the table below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force.

Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with Aegon Schadeverzekering's historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

The liability amount in the financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table differs from the corresponding liability amounts included in note 12 'Insurance contracts'.

2015	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2015
Insurance contracts	105.335	508.989	358.588	339.476	1.312.390
Total	**105.335**	**508.989**	**358.588**	**339.476**	**1.312.390**

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

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.

2015	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2015
Cash inflows	-	426	3.047	10.447	17.315	31.234
Cash outflows	-	-3.995	-14.323	-13.687	-17.457	-49.462

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

4.4.10. Underwriting risk

General information

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

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

Morbidity risk - non-life insurance products

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

Assumptions on morbidity are based on the company's claims history, augmented where necessary with industry information or data from the Dutch Association of Insurers or the Employee Insurances Implementing Agency (UWV or Uitvoeringsinstituut Werknemers-verzekeringen) (with respect to WIA). As there is a lag in data provided by the UWV, this could have effect on the insurance liability.

Expenses

Aegon Schadeverzekering also runs the risk of costs being higher than expected by management.

Reinsurance policy

For non-life, Aegon Schadeverzekering reinsures its property, marine, general and motor third-party liability business only. For property insurance, an 'excess of loss' contract is in place with a retention level of EUR 3 million for each separate risk and EUR 20 million for each windstorm event. For motor third-party liability insurance, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 2.5 million for each event. For general third-party liability, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 1 million for each event. For marine insurance there is also an 'excess of loss' contract in place with a retention level of EUR 1.5 million for each event.

Notes to the table

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

	2015		2014	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
10% increase in morbidity rates	-1.980	-1.980	-2.344	-2.344
10% decrease in morbidity rates	1.980	1.980	2.344	2.344

4.4.11. Other risks

Catastrophes

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

Legislation and regulation

Aegon Schadeverzekering's insurance activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation of insurance products may affect Aegon Schadeverzekering's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Schadeverzekering's ability to sell new products or its claims exposure on existing ones.

Additionally, new or amended legislation or regulations may be more restrictive or result in higher costs than lead to higher costs than is currently the case.

Legal proceedings

Aegon Schadeverzekering is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Also, certain groups encourage others to bring lawsuits in respect of products. Aegon Schadeverzekering has established litigation policies to deal with claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Schadeverzekering will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability. For more details refer to note 25.3. “Legal and arbitrary proceedings, regulatory proceedings and actions”.

5. Investments

Investments for general account comprise financial assets, excluding derivatives. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 24.2.

	Note	31-12-2015	31-12-2014
Available-for-sale financial assets (AFS)	5.1	637.449	730.408
Loans (amortized cost)	5.3	565.652	499.193
Financial assets at fair value through profit or loss (FVTPL)	5.1	350.894	300.912
Total investments for general account		**1.553.996**	**1.530.513**

5.1. Financial assets, excluding derivatives

2015	AFS	Loans	FVTPL	Total	Fair value
Shares	7.414	-	350.894	358.308	358.308
Debt securities	630.035	-	-	630.035	630.035
Mortgage loans	-	447.178	-	447.178	504.363
Private loans	-	116.092	-	116.092	115.467
Other	-	2.383	-	2.383	2.383
At December 31	**637.449**	**565.652**	**350.894**	**1.553.996**	**1.610.556**

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

	2015	2014
Current	419.404	422.907
Non-current	1.134.592	1.107.605
Total financial assets, excluding derivatives	**1.553.996**	**1.530.513**

Reference is made to note 24 for information on fair value measurement.

Certain mortgage loans shown within the category amortized loans are designated for hedge accounting purposes and are fair valued with respect to the hedged interest rate. This resulted in an increased carrying value of EUR 13 million (2014: EUR 15.7 million). None of the financial assets has been reclassified during the financial year.

5.2. Loans

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

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

	2015	2014
At January 1	810	632
Addition charged to income statement	270	179
Amounts written off	-1	-1
At December 31	**1.079**	**810**

6. Derivatives

	Derivative asset		Derivative liability	
	31-12-2015	31-12-2014	31-12-2015	31-12-2014
Derivatives not designated in a hedge	1	-	-	-
Derivatives designated as cash flow hedges				
Derivatives designated as fair value hedges	203	-	14.559	14.997
Total	**205**	**-**	**14.559**	**14.997**

	31-12-2015	31-12-2014
Current	-	-63
Non-current	-14.354	-14.934
Total net derivatives	**-14.354**	**-14.997**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 24.2.

Derivatives designated as fair value hedges

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

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

	31-12-2015	31-12-2014
Fair value changes mortgage loans recognized in income statement under the EU carve-out	-1.991	15.720
Offset amount of fair value changes recognized on derivatives used as hedging instrument	660	-15.797
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-1.331**	**-78**

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

	31-12-2015	31-12-2014
Presented as asset	203	-
Presented as liability	14.559	14.997
Total	**-14.356**	**-14.997**

7. Long-term loans and group loans

	2015	2014
Loan Aegon Hypotheken B.V.	100.000	100.000
Loan Aegon Levensverzekering N.V.	30.000	30.000
Loan Aegon Derivatives N.V.	16.000	15.000
At December 31	**146.000**	**145.000**
current	46.000	45.000
non-current	100.000	100.000
Total	**146.000**	**145.000**

Aegon Hypotheken received a loan from other Aegon Schadeverzekering for a total amount of EUR 100 million as per December 31, 2015 (2014: EUR 100 million), for the same amount a depot is kept as a receivable on these entities. These loans have a floating interest rate (euribor) and are considered to be non-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. Reinsurance assets

	31-12-2015	31-12-2014
Non-life insurance	14.379	17.195
At December 31	**14.379**	**17.195**
Current	9.069	5.813
Non-current	5.310	11.382
	14.379	**17.195**

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

Movements during the year in reinsurance assets

2015	Life insurance General account	Life insurance For account policyholders	Non-life insurance	Total
At January 1	-	-	17.195	17.195
Gross premiums and deposits	-	-	9.936	9.936
Changes in unearned premiums			-9.936	-9.936
Incurred related to current year			-	-
Release for claims settled prior years			-2.816	-2.816
At December 31	**-**	**-**	**14.379**	**14.379**

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

9. Other assets and receivables

	Note	31-12-2015	31-12-2014
Receivables	9.1	2.541	3.996
Accrued income	9.2	30.583	37.966
Total		**33.123**	**41.962**

9.1. Receivables

	31-12-2015	31-12-2014
Receivables from reinsurers	-	539
Investment debtors	-	65
Receivables from policyholders	2.428	3.232
Receivables from brokers and agents	20	151
Other	92	9
Total	**2.541**	**3.996**
Current	2.541	3.996
Non-current	-	-
Total	**2.541**	**3.996**

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

9.2. Accrued income

	2015	2014
Accrued interest	10.049	12.113
Prepaid expenses	186	224
Deferred acquisition expenses non-life insurance	20.347	25.629
At December 31	**30.583**	**37.966**

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

10. Cash and cash equivalents

	31-12-2015	31-12-2014
Cash at bank and in hand	8.887	459
Short-term deposits	57.987	107.007
Money market investments	36.001	10.997
Total	**102.874**	**118.463**

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

These cash items are not subject to restrictions.

11. Equity

	31-12-2015	31-12-2014
Share capital	30.858	30.858
Share premium	116.808	116.808
Revaluation reserves	34.084	47.050
Retained earnings	85.874	85.589
Net income / (loss)	-18.372	285
Total	**249.252**	**280.590**

11.1. Share capital

	31-12-2015	31-12-2014
Authorized share capital	50.000	50.000
Not issued	19.142	19.142
	30.858	**30.858**

The authorized share capital is EUR 50 million, divided into 50,000 shares of EUR 1,000 nominal value each, of which 30,858 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2014 and 2015 Aegon Schadeverzekering did not pay dividend to Aegon Nederland N.V.

Under Dutch law the amount that is legally available to distribute as dividend to the shareholder consists of the amount that is available after deduction of the amount of the outstanding share capital (both the paid-in and the not paid-in amount on the share capital) and the amount equal to the legal and statutory reserves.

Furthermore, Aegon Schadeverzekering may cancel distributions of dividend where there is non-compliance with the solvency capital requirement or the distribution of dividend would lead to non-compliance with the solvency capital requirement. In such circumstances, a distribution of dividend may only take place if (i) DNB has exceptionally waived the cancellation of dividends, (ii) the distribution would not lead to a further deterioration of the solvency position of the insurance subsidiary and (iii) the minimum capital requirement is still complied with after the distribution is made.

11.2. Revaluation reserves

	2015	2014
At January 1	47.050	12.628
Gross revaluation	-15.322	60.169
Net (gains) / losses transferred to income statement	-2.093	-14.296
Tax effect	4.450	-11.452
At December 31	**34.084**	**47.050**

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

There are restrictions on the distribution to shareholders of the revaluation reserve relating to financial instruments that are not actively traded or quoted.

For more information see note 2.11.1 “shadow accounting” and note 12 “insurance contracts”.

12. Insurance contracts

	Note	31-12-2015	31-12-2014
Non-life insurance	12.1		
- Unearned premiums and unexpired risks		128.187	142.443
- Outstanding claims		826.614	980.471
- Incurred but not reported claims		488.902	294.425
Total insurance contracts		**1.443.703**	**1.417.340**

12.1. Non-life insurance

	31-12-2015	31-12-2014
Accident and health insurance	888.440	854.230
General insurance	555.263	563.109
Total	**1.443.703**	**1.417.340**

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

	2015	2014
At January 1	1.417.340	1.389.193
Gross premiums - existing and new business	707.127	734.010
Changes in unearned premiums	-721.383	-733.473
Changes in incurred but not reported claims	194.477	-39.917
Unwind of discount / interest credited	8.743	9.837
Incurred related to current year	354.795	352.920
Incurred related to prior years	-42.521	188.586
Release for claims settled current year	-199.648	-189.487
Release for claims settled prior years	-275.225	-294.330
Other	-	-
At December 31	**1.443.703**	**1.417.340**

Run off result	2015	2014
Accident and health insurance	53.009	54.694
General insurance	-2.438	-5.772
	50.571	**48.922**

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

Claims history in EUR million

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	Total
Estimated gross cumulative claims, before reinsurance											
Year-end financial year	516	514	542	522	471	479	479	505	462	427	
After 1 year	-	570	600	563	506	514	492	496	479	429	
After 2 years	-	-	579	547	494	494	473	457	442	384	
After 3 years	-	-	-	537	479	466	465	454	429	395	
After 4 years	-	-	-	-	479	482	469	440	416	373	
After 5 years	-	-	-	-	-	475	464	396	401	363	
After 6 years	-	-	-	-	-	-	454	395	381	354	
After 7 years	-	-	-	-	-	-	-	392	375	349	
After 8 years	-	-	-	-	-	-	-	-	372	345	
After 9 years	-	-	-	-	-	-	-	-	-	347	
Estimated cumulative claims	**516**	**570**	**579**	**537**	**479**	**475**	**454**	**392**	**372**	**347**	
Cumulative payments	-200	-345	-403	-394	-372	-405	-400	-352	-335	-316	
	317	**225**	**176**	**143**	**107**	**69**	**55**	**39**	**37**	**31**	**1.199**
Outstanding claims prior year (<2006)											117
Outstanding claims in financial statements (including IBNR)											**1.316**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	Total
Estimated net cumulative claims, after reinsurance											
Year-end financial year	516	513	535	518	471	479	478	501	462	427	
After 1 year	-	570	594	559	504	514	492	495	479	428	
After 2 years	-	-	575	544	492	492	471	455	442	383	
After 3 years	-	-	-	534	478	465	465	453	429	395	
After 4 years	-	-	-	-	478	480	469	439	416	373	
After 5 years	-	-	-	-	-	474	464	395	401	363	
After 6 years	-	-	-	-	-	-	454	393	381	354	
After 7 years	-	-	-	-	-	-	-	390	375	349	
After 8 years	-	-	-	-	-	-	-	-	372	345	
After 9 years	-	-	-	-	-	-	-	-	-	347	
Estimated cumulative claims	**516**	**570**	**575**	**534**	**478**	**474**	**454**	**390**	**372**	**347**	
Cumulative payments	-200	-345	-403	-394	-372	-406	-400	-351	-335	-316	
	317	**225**	**173**	**140**	**105**	**68**	**54**	**39**	**37**	**30**	**1.188**
Outstanding claims prior year (<2006)											114
Outstanding claims in financial statements (including IBNR)											**1.301**

13. Long-term borrowings and group loans

	31-12-2015	31-12-2014
Loan Aegon Hypotheken B.V.	100.000	100.000
At December 31	**100.000**	**100.000**
current	-	-
non-current	100.000	100.000
Total	**100.000**	**100.000**

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

14. Deferred tax

	31-12-2015	31-12-2014
Deferred tax assets	-	-
Deferred tax liabilities	14.933	19.339
Total net deferred tax liability / (asset)	**14.933**	**19.339**

Movement in deferred tax

2015	Financial assets	Total 2015
At January 1	19.339	19.339
Charged to income statement	43	43
Charged to equity	-4.450	-4.450
At December 31	**14.933**	**14.933**

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

The deferred tax relates to financial assets.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority. Deferred tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when, in the opinion of management, it is probable that they can be utilized. All deferred taxes are non-current.

We refer to prior period error in note 2.1.3.

15. Other liabilities and accruals

	Note	31-12-2015	31-12-2014
Other liabilities	15.1	28.119	20.867
Accruals		12	-
Total		**28.130**	**20.867**

15.1. Other liabilities

	31-12-2015	31-12-2014
Payables due to policyholders	1.521	3.844
Payables out of reinsurance	1.632	6.711
Investment creditors	16.003	-
Income tax payable	3.059	3.191
Social security and taxes payable	1.308	-
Current account with Aegon Nederland N.V.	1.969	3.021
Other creditors	2.627	4.099
Total	**28.119**	**20.867**
Current	27.254	20.137
Non-current	865	730
	28.119	**20.867**

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

16. Premium income and premium to reinsurers

	2015		2014	
	Gross	Reinsurance	Gross	Reinsurance
Life	-	-	-	-
Non-life	707.127	9.936	734.010	16.043
Total	**707.127**	**9.936**	**734.010**	**16.043**

2015	Premiums written	Premiums earned	Damages accounted	outstanding debt-claims	Operating costs	Net reinsurance
Accidents and illness	233.822	231.665	143.119	175.171	-59.447	-565
Motor vehicles;	87.990	91.998	57.344	60.302	-33.791	997
Motor vehicles civil liability	101.911	105.107	86.851	98.858	-38.383	-587
Maritime hull	9.008	10.472	7.840	9.106	-3.170	222
Maritime liability	15.323	14.730	13.618	17.047	-4.312	285
Transport insurance	9.050	10.626	6.570	663	-3.627	240
Fire	113.886	117.742	81.907	74.522	-46.357	10.335
Other damage to property	73.520	75.068	40.224	39.173	-30.867	-
General liability	38.916	39.770	20.598	23.638	-16.377	629
Legal aid;	19.248	19.425	13.638	14.389	-7.401	-
Relief operations	4.452	4.779	3.165	2.625	-1.564	7
Total	**707.127**	**721.383**	**474.873**	**515.493**	**-245.297**	**11.563**

2014	Premiums written	Premiums earned	Damages accounted	outstanding debt-claims	Operating costs	Net reinsurance
Accidents and illness	233.277	235.988	137.594	172.870	-59.232	2.419
Motor vehicles;	95.012	96.556	59.114	59.234	-35.214	893
Motor vehicles civil liability	106.438	106.860	85.878	85.365	-38.250	862
Maritime hull	15.564	17.210	11.763	8.914	-5.120	381
Maritime liability	9.494	9.328	6.638	7.925	-2.599	217
Transport insurance	16.897	17.406	11.244	12.884	-5.407	409
Fire	115.988	106.925	90.311	85.087	-42.442	12.369
Other damage to property	75.899	78.797	40.268	41.398	-33.286	-
General liability	39.708	38.614	23.875	20.746	-15.825	798
Legal aid;	19.799	19.861	13.586	14.003	-7.363	-
Relief operations	5.934	5.928	3.545	3.001	-2.061	8
Total	**734.010**	**733.473**	**483.816**	**511.426**	**-246.798**	**18.354**

All premium income (including reinsurance) recognized relates to insurance contracts entered into from the Netherlands.

17. Investment income

	2015	2014
Investment income related to general account	25.211	28.794
	25.211	**28.794**

Investment income consists of:

	2015	2014
Interest income out of:		
- Debt securities	12.731	14.956
- Loans	14.817	15.169
- Investments in investment funds		
- Other investments	-2.571	-1.510
Dividend income from shares	233	179
Total	**25.211**	**28.794**

Interest income accrued on impaired financial assets	343	358
Interest income on financial assets that are not carried at fair value through profit or loss	27.874	30.596

Investment income from financial assets held for general account:

	2015	2014
Available-for-sale	12.964	15.135
Loans	14.817	15.169
Derivatives	-2.897	-1.981
Other	326	470
Total	**25.211**	**28.794**

18. Results from financial transactions

	2015	2014
Net fair value change of general account financial investments FVTPL, other than derivatives	-12	957
Realized gains / (losses) on financial investments	2.093	14.296
Net fair value change of derivatives	-1.349	-251
Total	**732**	**15.002**

Realized gains and losses on financial investments

	2015	2014
Debt securities and money market investments (AFS)	2.093	14.296
Total	**2.093**	**14.296**

Net fair value change of derivatives comprise:

	2015	2014
Net fair value change on economic hedges where no hedge accounting is applied	-18	-173
Ineffective portion of hedge transactions to which hedge accounting is applied	-1.331	-78
Total	**-1.349**	**-251**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2015	2014
Fair value change on hedging instruments in a fair value hedge	660	-15.797
Fair value change on hedged items in fair value hedge	-1.991	15.720
Ineffectiveness fair value hedge	**-1.331**	**-78**

19. Policyholders claims and benefits

	2015	2014
Claims and benefits paid to policyholders	474.873	483.816
Change in valuation of liabilities for insurance and investment contracts	26.363	28.147
Total	**501.237**	**511.963**

20. Commissions and expenses

	2015	2014
Commissions	149.708	152.058
Employee expenses	20.917	24.152
Administration expenses	74.671	70.588
Total	**245.297**	**246.798**

Administration expenses

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. This allocation is examined each year.

The administration expenses do not include depreciation expenses.

Employee expenses

	2015	2014
Salaries	12.248	13.990
Post-employment benefit costs	2.040	3.005
Social security charges	1.734	1.968
Other personnel costs	4.896	5.189
Total	**20.917**	**24.152**

Employees

Aegon Schadeverzekering does not have employees, but makes use of the employees that are on the payroll of Aegon Nederland N.V. The salaries, social security contributions and pension contributions for staff working for Aegon Schadeverzekering are recharged to Aegon Schadeverzekering by Aegon Nederland N.V.

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

Remuneration Executive Board

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

	2015	2014
Executive Board members		
Gross salary and social security contributions	3.472.689	3.156.386
Pension premium	726.000	550.958
Other benefits	488.211	108.765
Total	**4.686.900**	**3.816.109**

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. With respect to the total remuneration of the Executive Board of Aegon Nederland in 2015, 23% (2014: 21%) was allocated to the income statement of Aegon Schadeverzekering.

Mortgage loans Executive Board

On the reporting date, members of the Executive Board had mortgage loans totaling EUR 4,750 thousand from a company associated with Aegon Nederland (2014: EUR 5,660 thousand) at interest rates ranging from 2.25% variable to 5.9% in line with the terms and conditions available to the employees of Aegon Nederland. Mortgages provided during the year amount to EUR 2,750 thousand (2014: EUR nil) and repayments amount to EUR 3,967 thousand (2014: EUR 75 thousand).

Remuneration Supervisory Board

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

The remuneration for the Supervisory Board members charged to Aegon Nederland N.V. in the financial year pursuant to Section 383:1 of Book 2 of the Netherlands Civil Code was EUR 156 thousand (2014: EUR 134 thousand). This remuneration consists entirely of gross pay and the employer's share of social security charges. The member of the Supervisory Board employed by Aegon N.V. did not receive any remuneration for his membership. No payments were made in connection with severance schemes; no remuneration or rights attaching to shares were granted.

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

Mortgage loans Supervisory Board

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

Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Schadeverzekering's independent public auditor during 2015 and audited these financial statements. The fees for services rendered to Aegon Schadeverzekering need not be disclosed in this Annual Report, based on article 382a.3 of Book 2 of the Netherlands Civil Code. The aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Accountants N.V. to the whole group of Aegon N.V. are disclosed in the Annual Report of Aegon N.V.

21. Impairment charges / (reversals)

	2015	2014
Impairment charges comprise:		
Financial assets AFS	-	81
Loans	270	179
Other	-	-
Net impairment charges / (reversals)	**270**	**260**

22. Interest charges and related fees

	2015	2014
Short-term liabilities and deposits	-393	287
Total	**-393**	**287**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	-393	287

23. Income tax

	2015	2014
Current tax		
- current year	-6.245	1.868
Deferred tax		
- origination / (reversal) of temporary differences	43	-1.806
Income tax for the period (income) / charge	**-6.202**	**62**

Reconciliation between standard and effective income tax:

	2015	2014
Income before tax	-24.573	347
Income tax calculated using weighted average applicable statutory rates	-6.143	87
Difference due to the effects of:		
- non-taxable income	-58	-25
Income tax for the period (income) / charge	**-6.202**	**62**

The weighted average applicable statutory tax rate for Aegon Schadeverzekering in 2015 and 2014 was 25% and will remain the same in 2016.

	2015	2014
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation of available-for-sale investments	-3.926	15.026
Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments	-523	-3.574
Total income tax related to components of other comprehensive income	**-4.450**	**11.452**

24. Fair value of assets and liabilities

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

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

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

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

24.1. 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.

2015	Level I	Level II	Level III	Total 2015
Assets carried at fair value				
AFS investments				
- Shares	-	-	7.414	7.414
- Debt securities	302.124	239.012	88.900	630.035
FVTPL investments				
- Shares	-	350.894	-	350.894
- Derivatives	-	205	-	205
Total assets	**302.124**	**590.111**	**96.314**	**988.549**
Liabilities carried at fair value				
- Derivatives	-	14.559	-	14.559
Total liabilities	**-**	**14.559**	**-**	**14.559**

2014	Level I	Level II	Level III	Total 2014
Assets carried at fair value				
AFS investments				
- Shares	-	-	7.032	7.032
- Debt securities	404.955	252.814	65.607	723.376
FVTPL investments				
- Shares	-	300.912	-	300.912
- Derivatives	-	-	-	-
Total assets	**404.955**	**553.726**	**72.638**	**1.031.320**
Liabilities carried at fair value				
- Derivatives	-	14.997	-	14.997
Total liabilities	**-**	**14.997**	**-**	**14.997**

Movements in Level III financial instruments measured at fair value

2015	As at 1-1-2015	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2015	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	7.032	-233	616	-	-	-	7.414	-
- Debt securities	65.607	1	-426	26.075	-352	-2.005	88.900	-
Total assets	**72.638**	**-232**	**190**	**26.075**	**-352**	**-2.005**	**96.314**	**-**

2014	As at 1-1-2014	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2014	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	7.046	-99	84	-	-	-	7.032	-
- Debt securities	32.833	124	-233	40.048	-6.947	-218	65.607	-
Total assets	**39.879**	**26**	**-149**	**40.048**	**-6.947**	**-218**	**72.638**	**-**

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

Significant transfers between levels

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

There were no significant transfers between Level I and Level II of the fair value hierarchy during 2015 and 2014.

During 2015, Aegon Schadeverzekering transferred financial instruments with a value of EUR 2 million from Level III to Level II due to a change in the pricing source of some securities.

Significant unobservable assumptions

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

2015	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	7.414	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	88.900	Broker quote	n.a.	n.a.	n.a.
Total assets at fair value	**96.314**				

2014	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	7.032	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	65.607	Broker quote	n.a.	n.a.	n.a.
Total assets at fair value	**72.638**				

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As Aegon Schadeverzekering does not have level III assets or liabilities with unobservable input for which quantitative information is developed by Aegon when measuring fair value (e.g. uses prices from prior transactions or third-party pricing information without adjustment). Therefore also no impact analysis has been made on the fair value measurements of changes in unobservable input.

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

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

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivable, short-term liabilities, accrued liabilities and long term borrowings and group loans. 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. In 2015 further refinements have been made, we refer to note 3.2 changes in estimates.

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

2015	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	447.178	504.363	-	-	504.363	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	116.092	115.467	-	-	115.467	Discounted cash flow	-

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

24.1.1. Shares

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

24.1.2. Debt securities

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

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

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

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

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

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

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

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

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

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

<u>Corroboration</u>
On a quarterly basis level classifications are assigned to all securities. Those securities that have been priced by non-binding broker quotes are classified level II/III at first instance and are corroborated in order to assign the proper level. Aegon Schadeverzekering compares the received quote against all available other evidence. If differences between the price used to measure the security and two additional prices are within a 3% difference range a level II is assigned, otherwise the security is classified as being level III. If quotes were not to be

corroborated and did not seem to reflect a fair value, measures are taken to get a more reliable valuation; these securities always classify as level III.

24.1.3. Mortgage loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Schadeverzekering, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed interest mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse assumptions (unobservable inputs), liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would decrease the fair value of the mortgage loan portfolio. 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.

24.1.4. Derivatives

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

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

In the fourth quarter of 2014 Aegon Schadeverzekering changed the discount rate used in measuring the fair value of the majority of its euro-denominated derivatives positions in the Netherlands. The valuation changed from using Euribor Swap curves to a valuation based on the Overnight Index Swap (OIS) curve. The valuation based on the OIS curve better reflects the value of these derivatives positions in case of an exit or settlement.

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

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

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

[3] International Swaps and Derivatives Associations

24.2. 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.

	2015		2014	
	Trading	Designated	Trading	Designated
Investments for general account	-	364.033	-	316.041
Derivatives with positive values	1	203	-	-
Total financial assets at FVTPL	**1**	**364.236**	**-**	**316.041**

	2015		2014	
	Trading	Designated	Trading	Designated
Derivatives with negative values	-	14.559	-	14.997
Total financial liabilities at FVTPL	**-**	**14.559**	**-**	**14.997**

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:

	2015		2014	
	Trading	Designated	Trading	Designated
Net gains and losses	64	-1.425	-	706

<u>Derivatives</u>

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

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

25. Commitment and contingencies

25.1. Investments contracted

In the normal course of business, Aegon Schadeverzekering has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2016. 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 sales	2015	2014
Mortgage loans	508	839

25.2. Other commitments and contingencies

Guarantees given	2015	2014
Standby letters of credit	5.120	6.587
Other guarantees	12.000	12.000

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

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

25.3. Legal and arbitrary proceedings, regulatory proceedings and actions

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

26. Transfers of financial assets

Aegon Schadeverzekering does not have financial assets that have been transferred to another party in such a way that part or all of the transferred assets do not qualify for derecognition. Aegon Schadeverzekering is not involved in security lending activities or repurchase agreements. Furthermore Aegon Schadeverzekering does not have continuing involvement for derecognized financial assets that have been transferred in their entirety.

27. 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering to facilitate Aegon Schadeverzekering’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 Schadeverzekering or its counterparty. Transactions requiring Aegon Schadeverzekering 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.

As of 2015 we disclose this note for both assets and liabilities on a gross basis. As a result the comparatives in this disclosure have been restated.

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

2015	Gross amounts of recognized financial assets	**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	205	**205**	14.559	-16.000	**1.646**
At December 31	**205**	**205**	**14.559**	**-16.000**	**1.646**

2014	Gross amounts of recognized financial assets	**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	-	**-**	14.997	-15.000	**3**
At December 31	**-**	**-**	**14.997**	**-15.000**	**3**

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

2015	Gross amounts of recognized financial assets	**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	14.559	14.559	14.559	-	-
At December 31	14.559	14.559	14.559	-	-

2014	Gross amounts of recognized financial assets	**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	14.997	14.997	14.997	-	-
At December 31	14.997	14.997	14.997	-	-

28. Related party transactions

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

Aegon Schadeverzekering had committed financing arrangements for EUR 100 million as at December 31, 2015 (2014: EUR 100 million) with Aegon Hypotheken, a group company of the parent Aegon Nederland. No calls were made on these committed internal facilities during 2014 and 2015. Aegon Schadeverzekering received a commitment fee of EUR 202 thousand from Aegon Hypotheken (2014: EUR 202 thousand).

Aegon Nederland provides Aegon Schadeverzekering with administrative support and facilities at cost. Total recharged overhead expenses were EUR 91 million (2014: EUR 92 million).

Aegon Schadeverzekering has a short term deposit with Aegon Levensverzekering of EUR 30 million as at December 31, 2015 (2014: EUR 30 million). The interest income regarding this deposit was nil in 2015 (2014: EUR 0.1 million).

Aegon Schadeverzekering participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Schadeverzekering uses to mitigate interest rate risk are concluded via Aegon Derivatives N.V. The intercompany short-term deposit with Aegon Derivatives N.V. for the required collateral was EUR 16 million as at December 31, 2015 (2014: EUR 15 million). Net fair value change on these derivative transactions amount to a charge of EUR 0.6 million (2014: income of EUR 16 million). The derivatives had a credit position of EUR 14 million (2014 EUR 15 million).

All financial transactions pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. At the end of the year, Aegon Schadeverzekering had a current account liability to Aegon Nederland of EUR 2 million (2014: EUR 3 million), see note 15 'Other liabilities and accruals'. In 2015, EUR 0.3 million (2014: 0.4 million) of interest income on the intercompany current account was recognized in the income statement.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. The recharge was EUR 0.7 million (2014: EUR 0.7 million). The investment portfolio amounted to 1,097 million (2014: EUR 1,033 million).

The mortgages held by Aegon Schadeverzekering are managed and administered by Aegon Levensverzekering. The recharge for these services was EUR 0.7 million (2014: EUR 0.8 million). The mortgages amounted to EUR 447 million (2014: EUR 487 million).

The premium income from the production of Aegon PPI related to Aegon Schadeverzekering was EUR 3.9 million in 2015 (2014: EUR 2.1 million).

Aegon Schadeverzekering reinsures part of its insurance contracts with Blue Square Re, which is a 100% owned subsidiary of Aegon N.V. The contract is renewed on an annual basis. For 2015 total premiums paid amount to EUR 0.9 million (2014: EUR 1.6 million).

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

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

Aegon Schadeverzekering did not pay dividend to Aegon Nederland in 2015 and 2014.

29. Events after the balance sheet date

On January 18, 2016 Aegon Schadeverzekering NV/Aegon Nederland NV signed an agreement in which the commercial non-life insurance business, which includes the proxy and co-insurance run-off portfolios, will be sold to Allianz Benelux. On settlement the related technical provisions and correspondening assets (i.e. cash), will be transferred to Allianz Benelux. This sale is expected to be executed before July 1, 2016. This transaction follows the announcement last year that the commercial line of Aegon Nederland was no longer strategically core to the company's non-life business, and that Aegon Nederland will continue to invest in income protection and retail non-life insurance. The transaction is still subject to approval by the Dutch Central Bank (De Nederlandsche Bank) and the Dutch Authority for Consumers and Markets (Autoriteit Consument & Markt). The insurance portfolios in scope generate approximately EUR 90 million of reoccurring premiums and the related technical provision are approximately EUR 373 million.

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

The Hague, April 15, 2016

Supervisory Board	*Executive Board*
J.A.J. Vink	M.B.A. Keim
D.D. Button	R. Zomer
G.T. Kepecs	R.M. van der Tol
D. Terpstra	M.J. Edixhoven

Other information

Provisions in the Articles of Association regarding profit appropriation

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

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

Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year of EUR -/- 18.4 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

Independent auditor's report

Independent auditor's report

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

Report on the financial statements 2015

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Aegon Schadeverzekering N.V. as at 31 December 2015, 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 (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2015 of Aegon Schadeverzekering N.V., seated in The Hague, the Netherlands ('the company'). The financial statements comprise:

- the statement of financial position as at 31 December 2015;
- the following statements for 2015: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

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

The basis for our opinion

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

We are independent of Aegon Schadeverzekering N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Ref.: e0377164

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Our audit approach

Overview and context

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

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

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

Materiality

- Overall materiality: €6.5 million which represents approximately 3% of equity less revaluation reserve. We utilise quantitative and qualitative measures and performed a stakeholder's analysis that includes the perspective of the parent company, policyholders, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality.

Audit scope

- We conducted audit work in all significant business operations within the Aegon Schadeverzekering N.V. structure.
- We have audited the regulated insurance operations, including the centralized investment operations within Aegon Schadeverzekering N.V.

Key audit matters

- Valuation of insurance contracts including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation.
- Fair value of 'hard to value' financial instruments.

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibility for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

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

Overall materiality	€6.5 million (2014: €4.7 million).
How we determined it	At the start of the planning of our audit we performed a stakeholder's analysis that identifies suitable benchmarks and thresholds for determining overall materiality for the statutory financial statements. Our evaluation of overall materiality has been based on applying 3% of equity, less revaluation reserves. This resulted in an overall materiality of approximately €6.5 million (2014: €4.7 million).
Rationale for benchmark applied	Capital, e.g. solvency is a key measurement for regulators, policyholders and other creditors. Accordingly, we used a percentage of the company's equity, less revaluation reserve as a quantitative benchmark.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €0.3 million (2014: €0.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

With regards to the comparison of key audit matters between 2015 and 2014 we noted the following:

- we have no longer included a key audit matter on the transition as auditors including audit of opening balances;
- due to the nature of the insurance industry and economic environment the following key audit matters are consistent with prior year:
  - valuation of insurance contracts including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation;
  - fair value of 'hard to value' financial instruments.

In the table below, we describe the key audit matters and included a summary of the audit procedures we performed on those matters.

Key audit matter	***How our audit addressed the matter***
Valuation of insurance contracts including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation *Refer to Note 2.11 'Summary of significant accounting policies-insurance contracts' and Note 12 'Insurance contracts'.* The company has significant insurance contract liabilities stated at €1,444 million at 31 December 2015 representing 78% of the company's total liabilities. For non-life contracts the insurance liability generally includes provisions for unearned premiums, unexpired risks, inadequate premium levels and outstanding claims. Consistent with the insurance industry, the company uses various actuarial and statistical techniques, based on empirical or industry data and economic, demographic and other underwriting assumptions to support, and therefore we consider this a key matter for our audit. Liabilities for claims subject to periodic payment in particularly disability and other forms of income protection contracts are calculated using actuarial models consistent with those applied to life insurance products. Assumptions used for non-life insurance liabilities relate to policy lapses, claims development, incidence & recovery rates, expenses and those used in the liability adequacy test.	We used our own actuarial specialists to assist us in performing our audit procedures. In particular, our audit focused on the actuarial or statistical models considered more complex and/or requiring significant judgement in the setting of assumptions. We evaluated the design and tested the operating effectiveness of internal controls over the actuarial process including management's determination and approval process for setting of economic and actuarial assumptions. We assessed the company's validation of certain models considered higher risk by the company as a result of complexity and/or magnitude. We also assessed and tested the internal controls over the company's attribution analyses including estimated versus actual claim development patterns. We assessed the experience analyses performed by the company in their assumption setting processes. Our assessments included challenging, as necessary, specified assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences. A key focus in this area has been on the future incidence and recovery rates in disability and workers compensation insurance. We considered the appropriateness of judgements used, which may vary depending on the product and/or the specifications of the product and also the compliance of the applied models for example statistical techniques with the applicable accounting standards.

Key audit matter	How our audit addressed the matter
Furthermore, the valuation of certain non-life insurance contracts is affected by government regulations in particular regarding the (timeliness) disability assessment that leads to claims for the company from disability and workers compensation insurance.	Furthermore, we performed audit procedures to assure the accuracy and completeness of the data used in the models and systems for calculating the insurance contracts liabilities. We tested the validity of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the company and industry experience and specific product features. We also assessed the adequacy of the disclosures.
Fair value of 'hard to value' financial instruments *Refer to Note 2.4 'Summary of significant accounting policies-investments' and Note 24 'Fair value of assets and liabilities''.* The company's investment portfolio, including net derivatives, amounts to €1,540 million. Quoted prices from liquid market sources can be obtained for a large portion of the portfolio. The area that involved significant audit effort and judgement was the valuation of illiquid instruments, which are valued based on models and assumptions that are not observable by third parties. These instruments are generally considered model based level II and level III investments as included in Note 24 'Fair value of assets and liabilities'. Those investments have a higher potential risk to be affected by error or bias. Therefore these are considered a key matter in our audit. Our procedures considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortized cost on the balance sheet, but for which fair value is required to be disclosed. The risk was not uniform for all investment types and was considered greatest for derivatives, mortgage loans, asset back securities, unlisted debt and equity securities.	We used our internal valuation specialists to assist us in performing our audit procedures. We assessed the design and tested the operating effectiveness of internal controls over the investments' process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management's review of valuations provided by external experts or data vendors. We assessed pricing model methodologies against industry practice and valuation guidelines. We performed our own independent price checks using external quotes where available for illiquid positions. We compared assumptions used against appropriate benchmarks and pricing sources, investigated significant differences and performed our own independent valuations where applicable. We evaluated the cash flow and other relevant testing performed by the company in order to identify any impairment in relation to investments. We also assessed whether the company's disclosures in the financial statements in relation to the valuation of investments are compliant with the relevant accounting requirements.

Responsibilities of the executive board and the supervisory board

The executive board is responsible for:

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

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

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

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Report on other legal and regulatory requirements

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

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

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

Our appointment

We were appointed as auditors of Aegon Schadeverzekering N.V. by the supervisory board following the passing of a resolution by the shareholders of its ultimate parent company Aegon N.V. to elect PricewaterhouseCoopers Accountants N.V. as group auditor for the years 2014 to 2016 at the annual meeting held on 15 May 2013 representing a total period of uninterrupted engagement appointment of two years.

Amsterdam, 15 April 2016
PricewaterhouseCoopers Accountants N.V.

Original has been signed by E.L. Rondhout RA

Appendix to our auditor's report on the financial statements 2015 of Aegon Schadeverzekering N.V.

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

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

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

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

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

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

From the matters communicated with the audit committee of the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.