Annual report 2015

Aegon Levensverzekering N.V.

Aegon Levensverzekering N.V.
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Annual report 2015

Report of the Executive Board

General

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

Aegon Levensverzekering and its subsidiaries are active in life insurance and pensions operations, savings and investment products, mortgages and pension administration.

Purpose, strategy, objectives

Our purpose and strategy

Aegon Nederland's, the parent company of Aegon Levensverzekering 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.

Strategic objectives

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.

Life strategy

In 2015 Aegon Levensverzekering N.V. has enhanced its strategy execution based on the lessons learned in 2014. In broad terms this means:
- Further separating Service Book and Protection/Term Life; both deserve specific focus and further separation allows for freedom of movement to manage decline of the service book and growth in protection market.
- Further separate the management of going concern from the management of projects/change within Service Book. Going concern focuses on solid customer experience in balance with cost reduction while projects/change focuses on solving the investment insurance topics.
- Sharper and fact-based prioritization within Service Book to allow for:
  - deeper customer- and product segmentation to improve targeting and tailoring of customer communication and by doing so reduce costs
  - enhanced employee mobility through training, work experience program to allow for a gradual adjustment to declining policy numbers
  - cost reduction through operational excellence program and enhanced scheduling tooling further supported by effective digitization
  - leveraging the capabilities offered by the strategic Aegon programs DOUMA, Online & Mijn Aegon to improve customer experience
- Initiating a program with the goal to grow towards market share leadership in the term life and protection market.
- Additional capacity on key positions within different departments to support speedy execution of the strategy and transfer key knowledge now residing with staff close to retirement.

Aegon is well aware and well prepared to address the challenges facing life insurance companies in the Dutch market. Declining volumes in individual (unit linked) Insurance and off balance sheet pension solutions like APF and PPI's causing also a decline in premium income in the group business. Furthermore the lower interest rates cause a shift from Defined Benefit (DB) to Defined Contribution (DC) and declining investment margins. Finally longevity is increasing, resulting in price increases for products that inherently carry these risks. Taken together we can speak of a perfect storm for the industry. Aegon has a clear strategy to address these issues:
- Execute on our plans to further reduce cost in Aegon Leven and make those cost more variable
- Split between service units linked book and active sales in individual life
- Establish new business models in the group life business (PPI, APF, banking, services)
- Manage carefully the risks in the declining benefit group life book

A plan has been drafted to reduce costs. This will keep our contribution margin on an acceptable level. Furthermore Aegon is enabling corporate customers having Defined Contribution contracts in Aegon Leven, to transfer per contract date to Aegon PPI or Cappital. Basically this part of the book is closed for new sales, leading to lower cost per policy. We foresee that with the establishment of the APF more customers will switch from Defined Benefit to the APF.

In addition, as we steer on net promoter score as an important KPI, we focus on bringing our products and services online and improve our customer service experience. Finally, we continue to dedicate resources to implement the new pension communication act, as well as implementing the possibility to have a variable pension at pension date rather than only a fixed annuity.

Course of events during the financial year

Changes in the legal structure

There were no major changes in the course of 2015.

Management of Aegon Nederland

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.

Collective Labour Agreement

The process of drawing up a new Collective Labour Agreement and a new redundancy plan involving trade unions and the Works Council was completed in July 2015. Both agreements run from July 1, 2015 to July 1, 2018. There have not been any new developments since.

Business developments

Pensions
In 2015, the Pension business continued to attract political and legislative attention. New legislation for pension communication with participants requires a lot of effort from the pension sector. A totally new digital communication tool ('Pensioen 123') has to be built. In the summer of 2015, in anticipation of new Defined Contribution legislation in 2016, a law on the so-called 'pension-cut' ('Pensioen knip') offering a split-annuity option was (re)introduced. Aegon Levensverzekering N.V. quickly responded to this trend with an appropriate product. For 2016, a totally new DC-product with variable annuities will be developed.

In addition to the above and within the context of the national pension debate, the Ministry of Social Affairs and Employment published a 'Framework letter' ('Hoofdlijnennota'). The main conclusion in the Letter is that people need a better understanding of their own personal pension situation, based on solidarity, collective risk sharing and clear agreements about that. Be that as it may, and whatever the surrounding circumstances, the outcome of the national pension debate is as yet uncertain. What is clear, however, is that the Dutch pension landscape will change and will be radically different in 2020, both in terms of pension systems and in the design of the playing field for pension administrators, insurers and pension funds. Aegon Nederland is well positioned to seize opportunities in the pension market because of its sheer scale and a good track record in pension administration and asset management. In 2015, Aegon Nederland worked hard towards preparing for the introduction of a general pension fund (APF), a new type of pension fund. We intend to be fully operational when the law on APF comes into effect. Important steps were taken towards improving data quality and optimizing operational processes and furthering the rationalization of products and portfolios.

Due to the low market interest rate and the low coverage ratio of pension funds, there were no substantial opportunities for value transfers of pension rights ('buy-out' deals). Another trend Aegon Levensverzekering N.V. must anticipate is the differentiation in pricing for mortality and disability risks. Successes were achieved in het SME segment of small and medium-sized enterprises with our so-called Defined Contribution (DC) and Defined Benefit (DB) 'subscription propositions'. The DC subscription proposition is offered by Aegon PPI BV. Another new proposition was successfully launched for director-owners of companies in the fourth quarter and in addition, Aegon Levensverzekering N.V. is still doing well in the market of immediate annuities. In a very competitive market, Aegon Levensverzekering N.V. aims for quality over price and has continued its pricing discipline, thus achieving a positive gross Value of New Business (VNB). Customer focus is measured daily with the Net Promoter Score. NPS is a method to measure the willingness of customers to recommend Aegon. After a difficult start due to several obligatory changes we have had to make in the portfolio, the NPS score shows a positive trend in the last quarter.

Life (individual)
The year 2015 showed a continued decline in the market for endowment products and a further decrease in our in-force portfolio. Hardly any new business was generated in this market segment. The trend towards bank-savings products continued unaltered. There are still active markets for more traditional products such as Term and Whole-life

insurances, but these have become considerably smaller. Within the Term-Life market, Aegon Levensverzekering N.V. achieved significant growth in 2015, both in the top and bottom segments, and this trend is expected to continue in 2016. Working closely with Aegon Nederland's banking business, Aegon Levensverzekering N.V. offers customers integrated solutions wherever possible. New opportunities are emerging in the traditional life-insurance business, given the expected long-term developments in society, including legislation and longevity. The decreasing portfolio requires stringent control of costs which should diminish or at least be kept at the same level. In 2015 the decrease in costs outpaced the decrease in the in-force portfolio.

Aegon Levensverzekering N.V. manages their existing life portfolio as efficiently as possible and is optimizing their portfolio from both the customer's and Aegon's point of view. The MijnAegon online portal provides customers with a complete overview of and insight into their Aegon products. Through MijnAegon, customers can take action as they deem appropriate. In addition to this, Aegon Levensverzekering N.V. is actively trying to mobilize individual customers and encourage them to assess the performance of their product in relation to their (original) objectives. Our aim is to enable our customers to take informed decisions on whether or not to continue with their product, make changes to the policy or surrender their contract. This process is called 'activating customers'. In 2015, around 80,000 existing clients were actively approached to make an informed decision about their product. Finally, with the online financial check, Aegon Levensverzekering N.V. is also helping customers to check whether their Aegon products still meet their needs and personal situation.

Developments in the Unit-linked portfolio and Optas portfolio
Generally speaking, there is still media, political and regulatory attention regarding unit-linked policies (beleggingsverzekeringen). Individual customers as well as policyholder advocate groups and their representatives continue to focus on the fees and charges included in products, as well as alleged transparency aspects. Aegon expects this to remain an issue for the industry for the foreseeable future. Exposure and attention will be stimulated by court cases. In March 2014, consumer interest group Vereniging Woekerpolis.nl filed a new class action against Aegon in court. The claim related to a range of unit-linked products that Aegon sold in the past and include products which have already been subject to litigation, such as KoersPlan. In October 2015, the District Court ruled the pending class action as inadmissible for 112 of the Aegon products, thereby limiting proceedings to Koersplan, Vermogensplan and Fundplan. There are claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) and one claim at the District Court of Leeuwarden, which was filed by individual customers regarding Aegon products that arguably include similar allegations.

On January 2015 the Dutch court has approved a request filed jointly by Aegon Nederland and BPVH – a foundation representing Dutch harbor workers and employers – to remove restrictions on the capital of the harbor workers' former pension fund Optas. The restrictions have been removed. This resolves a dispute that began when the Optas pension fund was transformed into an insurance company, which was subsequently acquired by Aegon Nederland in 2007. As per the agreement announced on April 2014, Aegon made a payment of € 80 million to BPVH, as well as offering harbor workers more favorable pension conditions. In addition, over the coming years Aegon will contribute up to €20 million to help mitigate the effect of an announced reduction in the tax-free pension allowance in the Netherlands.

Corporate Governance report

Governance principles

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.

<u>Internal Audit</u>

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 Levensverzekering 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 consolidated profit before tax for 2015 was EUR 813 million (2014: EUR 443 million), 84% higher than in 2014.

Revenues
The revenues have decreased with EUR 2,252 million (or 36%), which was largely explained by a lower premium income of EUR 1,676 million, mainly due to less new and amended contracts compared to prior year and lower investment income of EUR 585 million, mainly caused by increased interest rates.

Results from financial transactions
The results from financial transactions decreased with EUR 6,436 to EUR -/- 272 million. This is mainly caused by higher interest rates compare to prior year. This lead to lower fair value movements of derivatives (EUR 3,232 million) and lower net fair value gains on financial assets for account of policyholders (EUR 3,214 million), mainly due to rising interest rates in 2015 compared to falling interest rates in 2014. The derivatives are held to hedge the guarantee provision, which also decreased significantly in value in 2015.

Policyholder claims and benefits
The policyholder claims and benefits are EUR 8,981 million lower compared to 2014. This is mainly caused by a lower change in valuation of liabilities for insurance and investment contracts of EUR -/- 989 million in 2015 compared to a change of EUR 8,786 million in 2014. This lower change is due to the decrease of the guarantee provision, as a result of rising interest rates in 2015 and due to less new and amended contracts compared to prior year.

Commissions and expenses
The commissions and expenses were slightly lower (EUR 15 million) than in 2014.

Solvency and financial position
Shareholders' equity at December 31, 2015 amounts to EUR 5.096 million compared to EUR 4,426 million at year-end 2014. The increase is mainly caused by the positive net income over 2015 (EUR 634 million).

Circumstances that impact future income and results
The main drivers of future income and results are interest rate developments and market- and demographic developments.

Employees

Aegon Levensverzekering 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.

Solvency I
The Solvency I directives were applicable up to December 31, 2015. The insurance activities of Aegon Levensverzekering are subject to the European Solvency I directives as implemented in the Netherlands. Aegon Levensverzekering's solvency ratio was 225% on December 31, 2015 (2014: 205%). Aegon Levensverzekering reported 189% in the financial statements 2014. The adjusted comparative figure relates to the prior period error. Refer to note 2.1.2. Aegon Levensverzekering held sufficient capital to meet the regulator's 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 Levensverzekering 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 Levensverzekering N.V. uses a Partial Internal Model to calculate the solvency position of its insurance activities under Solvency II. The calculation includes the use of the volatility adjuster, but does not include the use of any transitional measures. The internal model was approved on November 26, 2015, by the regulator DNB as part of the Internal Model Application Process. Aegon Levensverzekering N.V. applies its own capital management policies, determining Aegon Levensverzekering N.V. risk tolerances on the basis of self-imposed criteria. These policies may result in Aegon Levensverzekering 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 Levensverzekering 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

There were no significant events after balance sheet date.

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

R. Zomer

M.J. Edixhoven

R.M. van der Tol

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
- 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. Terpstra

G.T. Kepecs

D.D. Button

Consolidated financial statements 2015 of Aegon Levensverzekering N.V.

Consolidated statement of financial position

	Note	31-12-2015	31-12-2014*	1-1-2014*
Amounts in EUR million				
Assets				
Intangible assets	5	27	31	37
Investments	6	36.986	37.458	33.527
Investments for account of policyholders	7	24.337	26.570	23.340
Derivatives	8	6.894	23.026	11.680
Investments in associates	10	19	19	18
Investments in joint ventures	11	837	789	819
Long-term loans and group loans	9	2.302	2.225	1.778
Reinsurance assets	12	12	13	15
Deferred tax assets*	23	-	-	121
Deferred expenses	13	96	114	141
Other assets and receivables*	14	1.066	943	774
Cash and cash equivalents	15	4.832	6.121	1.160
Total assets		**77.406**	**97.309**	**73.410**
Equity and liabilities				
Equity	16	5.096	4.426	2.929
Equity		**5.096**	**4.426**	**2.929**
Insurance contracts*	17	31.717	31.317	25.021
Insurance contracts for account of policyholders	18	25.835	28.174	24.977
Investment contracts	20	239	249	259
Derivatives	8	7.502	21.281	10.071
Long-term borrowings and group loans	21	4.927	9.060	7.943
Provisions	22	6	6	6
Deferred tax liabilities*	23	338	288	-
Other liabilities and accruals	24	1.745	2.508	2.205
Total liabilities		**72.310**	**92.883**	**70.481**
Total equity and liabilities		**77.406**	**97.309**	**73.410**

*Amounts for December 31, 2014 and January 1, 2014 have been restated as a result of the correction of a prior period error, refer to note 2.1.2.

Consolidated income statement

Amounts in EUR million	Note	For the year ended December 31 2015	2014*
Revenues			
Premium income	25	2.265	3.942
Investment income	26	1.690	2.275
Fee and commission income	27	73	63
Total revenues		**4.028**	**6.280**
Income from reinsurance ceded		-1	-
Results from financial transactions	28	-272	6.164
Total income		**3.756**	**12.444**
Charges			
Premiums to reinsurers	25	5	4
Policyholder claims and benefits*	29	2.641	11.622
Profit sharing	30	28	10
Commissions and expenses	31	306	321
Impairment charges / (reversals)	32	6	1
Interest charges and related fees	33	36	67
Total charges		**3.022**	**12.025**
Income before share in profit / (loss) of joint ventures and associates and tax		**734**	**419**
Share in profit / (loss) of associates	10	2	1
Share in profit / (loss) of joint ventures	10	76	23
Income / (loss) before tax		**813**	**443**
Income tax*	34	-178	-62
Net income / (loss)		**634**	**381**
Net income / (loss) attributable to the parent company		**634**	**381**

*Amounts for the year 2014 have been restated as a result of the correction of a prior period error, refer to note 2.1.2.

Consolidated statement of comprehensive income

	Note	2015	2014*
		For the year ended December 31	
Amounts in EUR million			
Net income*		**634**	**381**
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	16	300	1.829
Equity movements of joint ventures	16	2	-
Equity movements of associates	16	-1	1
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	16	-256	-280
Income tax relating to items that may be reclassified	16	-9	-434
Total other comprehensive income for the period		**36**	**1.116**
Total comprehensive income / (loss)		**670**	**1.497**
Total comprehensive income attributable to the parent company		**670**	**1.497**

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

*Amounts for the year 2014 have been restated as a result of the correction of a prior period error, refer to note 2.1.2.

Consolidated statement of changes in equity

Amounts in EUR million

2015

	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
At January 1	23	305	1.590	2.508	4.426
Net income / (loss) recognized in the income statement	-	-	-	634	634
Other comprehensive income / (loss)	-	-	36	-	36
Total comprehensive income / (loss)	**-**	**-**	**36**	**634**	**670**
At December 31	**23**	**305**	**1.626**	**3.142**	**5.096**

2014*

	Share capital	Share premium	Revaluation reserves	Retained Earnings*	Total
At January 1	23	305	475	2.127	2.929
Net income / (loss) recognized in the income statement	-	-	-	381	381
Other comprehensive income / (loss)	-	-	1.116	-	1.116
Total comprehensive income / (loss)	**-**	**-**	**1.116**	**381**	**1.497**
At December 31	**23**	**305**	**1.590**	**2.508**	**4.426**

*Amounts for December 31, 2014 and January 1, 2014 have been restated as a result of the correction of a prior period error, refer to note 2.1.2.

Consolidated cash flow statement

Amounts in EUR million	Note	For the year ended December 31 2015	2014*
Income / (loss) before tax*		**813**	**443**
Results from financial transactions	28	274	-6.163
Amortization and depreciation	31	160	169
Impairment losses / (reversals)	32	6	1
Income from joint ventures	11	-76	-23
Income from associates	10	-2	-1
Adjustments of non-cash items		**361**	**-6.017**
Insurance and investment liabilities*	17/20	392	6.288
Insurance and investment liabilities for account of policyholders	18/7	-2.339	3.197
Accrued expenses and other liabilities	24	-765	238
Accrued income and prepayments*	14	-127	-166
Shadow accounting		671	-829
Changes in accruals		**-2.167**	**8.728**
Purchase of investments (other than money market investments)	6	-3.664	-6.839
Purchase of derivatives	8	-20	-835
Disposal of investments (other than money market investments)	6	3.719	5.571
Disposal of derivatives	8	2.037	3.549
Net purchase of investments for account of policyholders	7	1.989	-259
Change in group loans	9	-2.563	884
Cash flow movements on operating items not reflected in income		**1.499**	**2.070**
Tax (paid) / received*	34	-140	-92
Other		-5	-25
Net cash flows from operating activities		**361**	**5.108**

	Note	2015	2014*
Acquisition of subsidiaries, joint ventures and associates, net of cash	10/11	-13	-6
Dividend received from joint ventures and associates	10/11	46	60
Other			
Net cash flows from investing activities		**32**	**54**
Changes in long-term borrowings	21	-1.691	-267
Net change in repurchase agreements	38	9	66
Net cash flows from financing activities		**-1.682**	**-201**
Net increase / (decrease) in cash and cash equivalents		**-1.288**	**4.961**
Cash and cash equivalents at the beginning of the year	15	6.121	1.160
Cash and cash equivalents at the end of the year	15	**4.832**	**6.121**

*Amounts for 2014 have been restated as a result of the correction of a prior period error, refer to note 2.1.2.

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)	1.502	1.514
Dividend received	186	361

Notes to the consolidated financial statements

1. General information

Aegon Levensverzekering 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 Levensverzekering N.V. (or 'Aegon Levensverzekering') is a 100% subsidiary of Aegon Nederland N.V. in The Hague. Aegon N.V. in The Hague is the ultimate parent of the group.

Aegon Levensverzekering and its subsidiaries are active in life insurance and pensions operations and investment products, mortgages and pension administration.

2. Summary of significant accounting policies

2.1. Basis of presentation

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

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2015 is provided below in note 2.1.1 Adoption of new IFRS accounting standards.

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

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, policyholders claims and benefits, insurance guarantees, pension plans, income taxes and the potential effects of resolving litigation matters. Aegon Levensverzekering applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS. Details are provided in note 2.8 Derivatives and note 8 Derivatives.

The consolidated financial statements of Aegon Levensverzekering were approved by the Executive Board and by the Supervisory Board on April 15, 2016. The financial statements are put for adoption to the Annual General Meeting of Shareholders on April 15, 2016. The shareholders meeting can decide against adoption of 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. *Prior period errors*

During 2015 it was noted that certain fixed income investments were erroneously excluded in determining the 2014 guarantee provision. This resulted in an overstatement of the provision for the guarantee provision in the 2014 financial statements. The 2014 comparative figures have been restated retrospectively to correct this error. The cumulative effect of the years prior to 2014 is corrected in opening equity for 2014. There is no effect on the 2015 figures.

Furthermore, during 2015 it was noted that deferred tax assets and deferred tax liabilities with regard to the same fiscal unity were historically not offset in the balance sheet. Comparative figures have been restated to present the net amount in the balance sheet. This error had no impact on result or equity. The gross amounts are disclosed in note 0 deferred tax for both current year and comparatives.

Details of the impact of the restatement on previous periods of the financial statements are provided in the tables presented below.

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

	December 31, 2014 (previously reported)	restatement	December 31, 2014 (restated)	January 1, 2014 (previously reported)	restatement	January 1, 2014 (restated)
Assets						
Intangible assets	31		31	37		37
Investments	37.458		37.458	33.526		33.526
Investments for account of policyholders	26.570		26.570	23.340		23.340
Derivatives	23.026		23.026	11.680		11.680
Investments in associates	19		19	18		18
Investments in joint ventures	789		789	819		819
Long-term loans and group loans	2.225		2.225	1.778		1.778
Reinsurance assets	13		13	15		15
Deferred tax assets	783	-783	-	654	-533	121
Deferred expenses	114		114	141		141
Other assets and receivables	1.004	-61	943	790	-17	773
Cash and cash equivalents	6.121		6.121	1.160		1.160
Total assets	**98.153**	**-844**	**97.309**	**73.959**	**-550**	**73.409**
Equity and liabilities						
Equity	4.242	184	4.426	2.879	50	2.929
Group equity	**4.242**	**184**	**4.426**	**2.879**	**50**	**2.929**
Insurance contracts	31.562	-246	31.316	25.087	-67	25.020
Insurance contracts for account of policyholders	28.174		28.174	24.977		24.977
Investment contracts	249		249	259		259
Derivatives	21.281		21.281	10.071		10.071
Long-term borrowings and group loans	9.060		9.060	7.943		7.943
Provisions	6		6	6		6
Deferred tax liabilities	1.071	-783	288	533	-533	-
Other liabilities and accruals	2.508		2.508	2.205		2.205
Total liabilities	**93.911**	**-1.029**	**92.882**	**71.080**	**-600**	**70.480**
Total equity and liabilities	**98.153**	**-844**	**97.309**	**73.959**	**-550**	**73.409**

Impact of changes in accounting policies on consolidated income statement

	2014 (previously reported)	restatement	2014 (restated)
Premium income	3.942		3.942
Investment income	2.275		2.275
Fee and commission income	63		63
Total revenues	**6.280**	**-**	**6.280**
Results from financial transactions	6.164		6.164
Total income	**12.444**	**-**	**12.444**
Premiums to reinsurers	4		4
Policyholder claims and benefits	11.800	-179	11.621
Profit sharing	10		10
Commissions and expenses	321		321
Impairment charges / (reversals)	1		1
Interest charges and related fees	67		67
Total charges	**12.204**	**-179**	**12.025**
Income before share in profit / (loss) of associates and tax	**240**	**179**	**419**
Share in profit / (loss) of associates	1		1
Share in profit / (loss) of joint ventures	23		23
Income / (loss) before tax	**264**	**179**	**443**
Income tax (expense) / benefit	-17	-45	-62
Net income / (loss)	**247**	**134**	**381**
Total net income attributable to the parent company	**247**	**134**	**381**

Impact of changes in accounting policies on consolidated statement of comprehensive income

	2014 (previously reported)	restatement	2014 (restated)
Net income	**247**	**134**	**381**
Other comprehensive income			
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	1.829		1.829
Equity movements of associates	1		1
Gains / (losses) transf. to the income stat. on disposal and impairment of available-for-sale investments	-280		-280
Income tax relating to items that may be reclassified	-434		-434
Other comprehensive income for the period	**1.116**	**-**	**1.116**
Total comprehensive income / (loss)	**1.363**	**134**	**1.497**
Total comprehensive income attributable to the parent company	**1.363**	**134**	**1.497**

Impact of changes in accounting policies on consolidated statement of changes in equity

	December 31, 2014 (previously reported)	restatement	December 31, 2014 (restated)	January 1, 2014 (previously reported)	restatement	January 1, 2014 (restated)
Share capital	23		23	23		23
Share premium	305		305	305		305
Revaluation reserves	1.590		1.590	475		475
Retained earnings	2.324	184	2.508	2.077	50	2.127
Total equity	**4.242**	**184**	**4.426**	**2.879**	**50**	**2.929**

Impact of changes in accounting policies on consolidated cash flow statement

	2014 (previously reported)	restatement	2014 (restated)
Income / (loss) before tax	**264**	**179**	**443**
Results from financial transactions	-6.163		-6.163
Amortization and depreciation	169		169
Impairment losses / (reversals)	1		1
Income from joint ventures	-23		-23
Income from associates	-1		-1
Adjustments of non-cash items	**-6.017**	**-**	**-6.017**
Insurance and investment liabilities	6.467	-179	6.288
Insurance and investment liabilities for account of policyholders	3.197		3.197
Accrued expenses and other liabilities	238		238
Accrued income and prepayments	-210	45	-165
Other	-829		-829
Changes in accruals	**8.863**	**-134**	**8.729**
Purchase of investments (other than money market investments)	-6.839		-6.839
Purchase of derivatives	-835		-835
Disposal of investments (other than money market investments)	5.571		5.571
Disposal of derivatives	3.549		3.549
Net purchase of investments for account of policyholders	-259		-259
Change in group loans	883		883
Net change in cash collateral	-		-
Cash flow movements on operating items not reflected in income	**2.070**	**-**	**2.070**
Tax paid	-47	-45	-92
Other	-25		-25
Net cash flows from operating activities	**5.108**	**-**	**5.108**
Acquisition of subsidiaries, joint ventures and associates, net of cash	-6		-6
Dividend received from joint ventures and associates	60		60
Net cash flows from investing activities	**54**	**-**	**54**

	2014 (previously reported)	restatement	2014 (restated)
Changes in long-term borrowings and group loans	-267		-267
Net change in repurchase agreements	66		66
Net cash flows from financing activities	**-201**	**-**	**-201**
Net increase / (decrease) in cash and cash equivalents	**4.961**	**-**	**4.961**
Cash and cash equivalents at the beginning of the year	1.160		1.160
Cash and cash equivalents at the end of the year	**6.121**	**-**	**6.121**

2.1.3. Changes in presentation

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

2.1.4. Future adoption of voluntary changes in accounting policies

For the following standards, amendments to existing standards and interpretations, published prior to January 1, 2016, Aegon Levensverzekering 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.

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 Levensverzekering 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 Levensverzekering is evaluating the impact that adoption of this standard is expected to have on Aegon Levensverzekering'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 Levensverzekering 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.

2.2. Basis of consolidation

2.2.1. *Subsidiaries*

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

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the accounting principles of Aegon Levensverzekering, which is consistent with IFRS. Transactions between subsidiaries of Aegon Levensverzekering are eliminated. Transactions between subsidiaries of Aegon Levensverzekering resulting in losses are eliminated, except to the extent that the underlying asset is impaired. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the share of Aegon Levensverzekering in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence within twelve months after the acquisition date, are recorded against goodwill. Aegon Levensverzekering recognizes contingent considerations either as provision or as financial liability depending on the characteristics. Contingent considerations recognized as provisions are discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent consideration given in a business combination are recognized in the income statement. Contingent considerations recognized as financial liabilities are measured at fair value through profit or loss.

The identifiable assets, liabilities and contingent liabilities are stated at fair value at the moment control is obtained.

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

2.2.2. *Investment funds*

Investment funds managed by Aegon Levensverzekering in which Aegon Levensverzekering holds an interest are consolidated in the financial statements if Aegon Levensverzekering has power over that investment fund and it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, all interests held by Aegon Levensverzekering in the fund are considered, regardless of whether the financial risk related to the investment is borne by Aegon Levensverzekering or by the policyholders.

In determining whether Aegon Levensverzekering has power over an investment fund, all facts and circumstances have to be considered, including the following:

- Is the asset manager (key decision maker) external or internal (i.e. whether an Aegon Levensverzekering subsidiary);
- The investment constraints posed by investment mandate;
- Legal rights held by the policyholder to the separate assets in the investment vehicle (e.g. policyholders could have the voting rights related to these investments);
- The governance structure, such as an independent board of directors, representing the policyholders, which has substantive rights (e.g. to elect or remove the asset manager (key decision maker)); and
- Rights held by other parties (e.g. voting rights of policyholders that are substantive or not).

Exposure or rights to variability of returns can be the result of, (for example):
- General account investment of Aegon Levensverzekering;
- Aegon Levensverzekering's investment held for policyholders;
- Guarantees provided by Aegon Levensverzekering on return of policyholders in specific investment vehicles;
- Fees dependent on fund value (including, but not limited to, asset management fees); and
- Fees dependent on performance of the fund (including, but not limited to, performance fees).

Aegon Levensverzekering concluded, for all investment funds, that it does not exercise control, as Aegon Levensverzekering has no power over the asset manager (key decision maker).

Participations in investment funds held for general account are recognized as equity investments. Some of these investments in venture capital entities, mutual funds and investment funds are managed on the basis of market value and accounted for as financial assets at fair value through profit or loss. Participations in investment funds that are measured using the equity method are regarded as part of the investment portfolio. The income from these investment funds is recognized as investment income.

Participations in investment funds held for account of policyholders are accounted for as 'investments for account of policyholder' and measured at Fair Value Through profit or loss.

2.2.3. *Structured entities*

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

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

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

2.3. Foreign exchange translation

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

2.4. Offsetting of assets and liabilities

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

2.5. Intangible assets

2.5.1. Value of business acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA).

VOBA with respect to insurance contracts is amortized over the remaining duration of the acquired portfolio. The amortization period and pattern are reviewed at each reporting date; any change in estimates is recorded in the income statement. For all products, VOBA is assessed for recoverability at least annually and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test (LAT) for each reporting period. VOBA is derecognized when the related contracts are settled or disposed of.

2.6. Investments

General account investments comprise financial assets (excluding derivatives) as well as investment in real estate.

2.6.1. Financial assets, excluding derivatives

Financial assets, excluding derivatives are recognized on the trade date when Aegon Levensverzekering 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 Levensverzekering; and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Aegon Levensverzekering'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.

Securities lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as Aegon Levensverzekering retains substantially all the risks and rewards of the asset. A liability is recognized for cash (collateral) received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash (collateral) paid by Aegon Levensverzekering. The difference between sale and repurchase price is treated as investment income. If Aegon Levensverzekering subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

2.6.2. Real estate

Investments in real estate include property held to earn rentals or for capital appreciation, or both. Investments in real estate are presented as investments. Property that is occupied by Aegon Levensverzekering and that is not intended to be sold in the near future is classified as real estate held for own use and is presented in 'Other assets and receivables.'

All property is initially recognized at cost. Such cost includes the cost of replacing part of the real estate and borrowing cost for long-term construction projects if recognition criteria are met. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognized in the related revaluation reserve in shareholders' equity and are released to other comprehensive income over the remaining useful life of the property. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

Investment property is revalued periodically by external valuators. The valuators use the guidelines issued by the Investment Property Databank (IPD) when appraising investment property. All investment property is revalued at least once a year.

When (re)appraising investment property, the valuator takes market developments into account, both at the macro and micro level, which have an impact on the value of the property, such as recent and expected general economic developments, the relation between supply and demand (national and local) for the property category and the development of rents and gross initial yields.

There are three levels of valuation used by Aegon Levensverzekering:

a. Full valuation - at least every three years: an opinion of a valuator based on all possible value drivers and market conditions at a specific date. Value drivers in a full valuation include market information, legal and constructural information.
b. Reappraisal - every year: a recalculation of the, at an earlier time performed, full valuation. The same factors are considered, but less extensive. The object will be visited and also the value-determining factors are considered. For legal information and constructive information, however, only changes are considered with respect to the situation at the time of full valuation.
c. Market technical update - quarterly. A reappraisal of the value of the investment property is conducted using a desktop valuation without visiting the object. The update consists of a re-calculation of the value on the basis of the market rent and the market return on the valuation date. The following value drivers are considered: gross initial yield (net initial yield), discount rate, exit yield, market rent, contractual rent, duration of lease, expected duration of the (future) vacancies and expected incentives for relating. For residential property, rental and sales turnover rate, the total value if vacant and the vacancy ratio are also considered.

The fair value of the real estate portfolio is measured by external appraisers. The entire portfolio is covered by 5 appraisal agencies, per year, 20 % of the portfolio is rotated within this group.

The fair value is based on the BAR / NAR (Bruto Aanvangsrendement/ Netto Aanvangsrendement or Gross/ Net Initial Yield) methodology. The manager of the real estate portfolio sends the required basis data to the appraisers where after the appraisers collect reference information in the market. The reference information could be recent transactions of similar real estate complexes or recent transactions of similar individual housing.

Using all available information, the external appraisers determine the fair value of the real estate property by determining the BAR / NAR per property / complex housing (based on the specific characteristics of the dwellings appraised by them).

The manager of the real estate property corroborates the outcome of the external appraisers' fair value by making a confirmatory calculation based on the outcome of two scenarios:

1. Income based scenario; and
2. Scenario based on reference transactions

The highest outcome of these two scenarios is compared with the BAR / NAR calculations as provided by the external appraisers. If the difference between both outcomes is material, discussions with the external appraisers are held and either the confirmatory calculations or the appraised fair value is amended.

Where large investment, renovation or conservation (maintenance) expenditures are expected between now and five years, the expected expenditures are explicitly included in the valuation.

Income based scenario
The income based scenario is a further detailing of BAR/NAR using property specific data. This approach requires the use of the discounted cash flow method and determination of the expected net rental income for at least a ten year period and the exit value at the end of the timeframe. The valuator estimates the net rental income by determining the gross market rent in the first year, based on market rent and adjusting for differences between contractual and market rent, rent concessions and vacancies. The operational costs, such as fixed expenses, property management and rental brokerage and maintenance expenses are deducted.

Scenario based on reference transactions
Three reference transactions are used to determine the sale price free of rent and use. Reference transactions would be with similar objects. If there are not enough reference transactions available, transactions in comparable cities or historical transactions could also be used for reference. Within this scenario, the appraisers reduce the sales price of similar houses if the object being appraised is not free of a tenant. This reduction is based upon the difference between market sales of similar properties with and without rental contracts. The difference between these two has been between 20% and 25% in recent years.

Specifics with respect to leasehold property ('erfpacht')
Especially in the cities of Amsterdam, Rotterdam, The Hague and Utrecht relatively many lands have been sold in the past as leasehold. At each valuation it is important to determine the situation of the land the property has been built on (freehold or leasehold). In case of leasehold, the following general guideline is applicable:

- If a canon (leasehold rent) is paid, this is included as operating costs.
- If the leasehold has been bought for a certain period, the leasehold is taken into the valuation as follows:
  - Assess the total property value as if it was built on private land and deduct the value of the bare ownership of the land.
  - The value of the bare ownership of the land equals the present value of the remaining canons plus the present value of the exit value of the land.
- If the leasehold has been redeemed indefinitely, there is no need for a correction in the calculation, unless market references indicate otherwise.

If available, municipal guidelines for the redemption of the canons are used as reference.

Property under construction
Aegon Nederland develops, via the joint venture AMVEST Vastgoed B.V, property itself with the intention to hold it as investments in real estate. During the construction phase both the land and the building are presented as investments in real estate. Property under construction is initially valued at directly attributable costs, plus a premium on the amount invested to cover internal expenses. On completion of the property is carried at fair value, or at an earlier time when the fair value can be determined reliably.

The fair value of a partially completed investment property reflects the expectations of market participants of the value of the property when complete, less deductions for the costs required to complete the project and appropriate adjustments for profit and risk. The valuation and all key assumptions used in the valuation should reflect market conditions at the valuation date. All fair value gains and losses are recognized in the income statement.

Maintenance costs and other subsequent expenditure
Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

2.7. Investments for account of policy holders

Investments held for account of policyholders consist of investments in financial assets, as well as investments in real estate. Investment return on these assets is passed on to the policyholders. Also included are the assets held by consolidated investment funds which are backing liabilities towards third parties. Investments for account of policyholders are valued at fair value through profit or loss.

2.8. Derivatives

2.8.1. *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 Levensverzekering 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.

2.8.2. *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.

2.8.3. *Hedge accounting*

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

2.9. Investment in joint arrangements

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

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

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

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

Gains and losses on transactions between Aegon Levensverzekering and the joint ventures are eliminated to the extent of the interest in the entity of Aegon Levensverzekering, with the exception of losses that are evidence of impairment which are recognized immediately.

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

2.10. Investment in associates

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

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

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

Gains and losses on transactions between Aegon Levensverzekering and the associate are eliminated to the extent of the interest in the entity of Aegon Levensverzekering, with the exception of losses that are evidence of impairment which are recognized immediately.

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

2.11. Reinsurance assets

Reinsurance contracts are contracts entered into by Aegon Levensverzekering in order to receive compensation for losses on contracts written by Aegon Levensverzekering (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 Levensverzekering 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.

2.12. Deferred expenses

2.12.1. Deferred policy acquisition costs ('DPAC')

DPAC (Deferred Policy Acquisition Costs) relates to all insurance contracts as well as investment contracts with discretionary participation features and represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts. Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on factors such as expected gross profit margins. For all products, DPAC, in conjunction with VOBA where appropriate, 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.

2.12.2. *Deferred cost of reinsurance*

A deferred cost of reinsurance is established when Aegon Levensverzekering enters into a reinsurance transaction. Aegon Levensverzekering is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the run-off period of the underlying business. Gains or losses on buying reinsurance are amortized based on the assumptions of the underlying insurance contracts. The amortization is recognized in the income statement.

2.13. Other assets and receivables

Other assets and receivables include equipment, trade and other receivables, 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. Equipment is initially carried at cost, depreciated on a straight line basis over its useful life to its residual value and is subject to impairment testing.

2.14. 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.

2.15. 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 Levensverzekering’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.

2.15.1. *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 utilizes the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.
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.

2.15.2. 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

2.15.3. 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 Levensverzekering 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 Levensverzekering'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 Levensverzekering'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.

2.15.4. *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.

2.16. 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.

2.17. Insurance contracts

Insurance contracts are accounted for under IFRS 4 – Insurance Contracts. In accordance with this standard, Aegon Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering's point of view, the date of the offer would be the date Aegon Levensverzekering 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).

2.17.1. *Life insurance contracts*

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

Liabilities arising from traditional life insurance products that are offered by Aegon Levensverzekering, particularly those with fixed and guaranteed account terms, are typically measured using the net premium method. Under this method, the liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on current assumptions, although for the discount rate a fixed 3% or 4% is used. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

The liability for life insurance products includes the provision for future administration expenses, formed to cover the expected future expenses with respect to the period after premium payment, as well as a provision with respect to future expenses associated with processing benefits (such as annuities and pension payments).

Terms and conditions, including participation features and expected lapse rates, are considered when establishing the insurance liabilities. Where Aegon Levensverzekering has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

In establishing the liability, guaranteed minimum benefits issued to the policyholders are measured as described in note 2.17.4 'Embedded derivatives' or, if bifurcated from the host contract, as described in note 2.8 'Derivatives'.

2.17.2. Deferred interest contracts

A rebate granted and/or future interest compensation granted during the year is a form of profit sharing whereby Aegon Levensverzekering applies a correction to the premium payable based on the expected (surplus or deficit) interest that will be earned on the contract. The expected interest is calculated with reference to a portfolio of government bonds. The rebate can be subject to additional conditions concerning actual returns or the continuation of the policy for a specified number of years.

Rebates granted and/or future interest compensation granted during the year that are expected to be recovered in future periods are deferred and amortized on a straight line basis as the surplus or deficit interest is realized. The amortization is recognized in the income statement in 'Policyholder claims and benefits'. Interest rebates form part of the insurance contract liability.

Deferred rebates granted and/or future interest compensation granted during the year are derecognized when the related contracts are settled or disposed of.

2.17.3. Life insurance contracts for account of policyholders

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders. The liability for the insurance contracts for account of policyholders is measured at the policyholders account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. In addition, the measurement of these insurance contracts also include provisioning for expected additional costs, such as expenses and longevity.

2.17.4. Embedded derivatives

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives.

Guaranteed minimum benefits

Certain life insurance contracts, issued by Aegon Levensverzekering, contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives. An additional liability is established for guaranteed minimum investment returns on group pension plans with profit sharing and on traditional insurance contracts with profit sharing based on an external interest index, that are not bifurcated. These guarantees are measured at fair value.

2.17.5. 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.

2.17.6. *Liability Adequacy Testing*

At each reporting date the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders) 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 minus any related VOBA and DPAC plus the difference between carrying value and fair value of certain investments.

All tests performed within Aegon Levensverzekering are based on current estimates of all contractual future cash flows, including related cash flows from policyholders options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling.

Aggregation levels are set at the level of portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio. Diversification benefits on the level of the group are taken into account. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on the expectation of the future return on investments. These future returns on investments take into account management's best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity.

To the extent that the account balances are insufficient to meet future benefits and expenses, we apply in principal shadow loss recognition. Any remaining deficiency is recognized in the income statement, either by impairing the DPAC and VOBA or by establishing an insurance liability for the entire remaining deficiency. The assumptions in the liability adequacy test contain a margin for risk. The risk margin is determined according to the cost of capital method.

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.

Shadow loss recognition
While using market interest rates for the valuation of debt securities will lead to a change in the revaluation reserve and comprehensive income, the result of using the same assumptions on the liabilities could lead to a deficiency in the liability adequacy test that should be recognized in the income statement. The deficiency of insurance liability triggered by a decrease in interest rates is offset against the revaluation reserves to the extent that the revaluation reserve on debt securities will not become negative. If in subsequent periods such a deficiency of the insurance liability is no longer applicable, shadow loss recognition is reversed via the revaluation reserve. See note 3.3 for more information on the used interest yield and mortality tables.

2.18. Investment contracts

Contracts issued by Aegon Levensverzekering that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to Aegon Levensverzekering are accounted for as investment contracts. Depending on whether Aegon Levensverzekering or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is cancelled.

Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

2.19. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholders. Investment contracts for account of policyholders are designated at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

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

2.21. Provisions

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

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

Onerous contracts
With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligations exceed the expected future economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

2.22. Assets and liabilities relating to employee benefits

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

2.23. 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. Optas Pensioenen N.V. is income tax exempt.

2.23.1. 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 Levensverzekering 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 Levensverzekering 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.

2.23.2. *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 Levensverzekering'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 Levensverzekering 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.

2.23.3. *Deferred tax assets and liabilities relating to investments in subsidiaries*

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if Aegon Levensverzekering is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

2.24. 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.

2.25. Contingent assets and liabilities

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

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

2.26. Premium income and premium outgoing reinsurance

Gross premiums consists of recurring and single premiums from life insurance; these are recognized as revenue when they become receivable. For products where deposit accounting is required, the deposits are not reflected as premium income, but are recognized as part of the financial liability.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognized as an expense. Profit sharing amounts that are used to increase the insured benefits are recognized as gross premiums. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

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

2.27. Investment income

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

2.28. Fee and commission income

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

2.29. 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.

2.30. Policyholders claims and benefits

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts.

2.31. Results from financial transactions

Results from financial transactions include:

2.31.1. 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.

2.31.2. 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.

2.31.3. *Results on real estate*
The gains and losses on real estate (both realized and unrealized) relate to the changes in fair value of the investments in real estate.

2.31.4. *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.

2.31.5. *Net fair value change on for account of policyholders financial assets at fair value through profit or loss*
Net fair value change on for account of policyholder financial assets at fair value through profit or loss includes the fair value movements of investments held for account of policyholders (refer to note 2.7 Investments for account of policyholders). The net fair value change does not include interest or dividend income.

2.31.6. *Net foreign currency result*
Net foreign currency result comprises net foreign currency gains and losses.

2.32. Profit sharing

Profit sharing comprises the in the financial year reserved amounts for profit sharing to policyholders.

2.33. 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 Levensverzekering as services rendered to Aegon Levensverzekering. 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 Levensverzekering are made available by Aegon Nederland and the associated costs are recharged.

Acquisition expenses are deferred to the extent that they are recoverable and subsequently amortized. See also note 2.12 ‘Deferred expenses’. VOBA is amortized as described in note 2.5.1 ‘Value of business acquired’.

2.34. 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.

2.35. 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.

2.36. Leases

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

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where Aegon Levensverzekering is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where Aegon Levensverzekering is the lessor under an operating lease (for instance with regard to the commercial leases on its real estate investment portfolio), the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.37. 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

The following changes of estimates took place in the financial year:

- At inception the market value of the first longevity derivative of Aegon Levensverzekering was EUR 13.4 million higher than the cost price, which resulted in a day one gain in 2011. Based on the longevity derivative that Aegon Levensverzekering entered into during 2015, more relevant information (market transaction data) became available that was taken into consideration in determining the market value for both longevity derivatives. This change of estimate resulted in a full reversal of the day one gain of EUR 10.9 million and an additional write off of the market value of EUR 15.6 million, regarding the first longevity derivative at the date of recognition of the latest longevity derivative in 2015.
- In 2014, Aegon Levensverzekering 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 Levensverzekering'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 419 million.
- During 2015 Aegon Levensverzekering refined the method of measurement of the guarantee provision. Upon the dates of implementation, these model refinements resulted in an increase of the guarantee provision of EUR 29 million and a similar net negative impact on income before tax.

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

The liability for life insurance contracts with guaranteed or fixed account terms is generally based on current assumptions or on the assumptions established at the inception of the contract. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows (including investment returns). To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity (see also note of the Liability Adequacy Testing).

For the liability adequacy test Aegon Levensverzekering uses mortality tables that take into account expected future changes in life expectancy (the Aegon prospective mortality table). As of 2014, Aegon Levensverzekering also uses this prospective table in its financial statements.

The liability adequacy test uses a discount rate which converges linearly in 10 years to an Ultimate Forward Rate of 4.25% from the last liquid point. The uniform last liquid point is set at 30 years. The discount rate includes a liquidity spread. The rates used to discount the insurance liabilities on Aegon Nederland's statement of financial position are determined using discount rates as contractually agreed, mainly 3% and 4%.

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

The assumptions in the liability adequacy test contain a margin for risk which represents the cost of capital held for unhedgeable financial and underwriting risks.

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

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

3.3.1. *Actuarial assumptions*

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses.

Mortality tables

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate.

For contracts insuring survivorship, allowance is made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

For the liability adequacy test Aegon Levensverzekering uses mortality tables that take into account expected future changes in life expectancy (the Aegon prospective mortality table).

Investment returns

Investment assumptions are prescribed by the regulator, market observable or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management, considering available market information and economic indicators.

Expenses

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

Lapses

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Reliable own experience, as well as available industry wide data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

Actuarial assumption and model updates

Assumptions are reviewed periodically, typically in the third quarter, based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions. Similarly, the models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology. During 2015, Aegon Levensverzekering implemented actuarial assumption and model updates negatively impacting the margin in the Liability Adequacy Test by EUR 134 million. For more information on the outcome of the Liability Adequacy Test 2015 refer to note 17 'Insurance contracts'.

3.4. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering, 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 Levensverzekering 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 Levensverzekering periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

3.6. Recognition of provisions

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

4. Risk management

4.1. Governance

The risk management of Aegon Levensverzekering 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 Levensverzekering has its own Executive Board and Supervisory Board. The Executive Board of the parent company participates in the Executive Board of Aegon Levensverzekering. 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 Levensverzekering are subject to the European Solvency I directives as implemented in the Netherlands. Aegon Levensverzekering's solvency ratio was 225% on December 31, 2015 (2014: 205%). Aegon Levensverzekering reported 189% in the financial statements 2014. The adjusted comparative figure relates to the prior period error. Refer to note 2.1.2. Aegon Levensverzekering held sufficient capital to meet the regulator's requirements during 2015 and 2014.

4.3. Product information

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

4.3.1. *Insurance products for general account*

Aegon Levensverzekering bears the insurance and investment risk on products for general account. The entity realizes results on interest, mortality, morbidity, lapses and expenses or a combination of them.

Traditional life insurance

The traditional life insurance offered by Aegon Levensverzekering is mainly endowment insurance, term and whole life insurance and pension and annuity policies.

General

A significant risk with the sale of traditional life insurance is mortality risk. The main determinants that can affect the frequency and timing of benefits are epidemics, natural or man-made disasters or a general deterioration in death rates as a result of changes in lifestyle. The insured mortality risk can be forecast reasonably reliable in normal circumstances by stringent underwriting criteria and the large number of insured persons. The underwriting level used by the company depends on the materiality of the mortality risk in relation to other product features, the insured amount and the cost/benefit analysis of each product.

In addition to mortality risk, Aegon Levensverzekering's pension and annuity activities also bear a significant longevity risk; people are living longer due to better medical care and improved living conditions.

Investing future recurring premiums and reinvestments at a market interest rate below the one incorporated in the actuarial assumptions is also a risk. Certain products also include a minimum interest guarantee that exposes Aegon Levensverzekering to interest rate risk if low interest rates persist for a long time.

Aegon Levensverzekering's policy on entering into insurance policies is designed to ensure that the risks accepted are sufficiently diversified in terms of the type of risk and benefit levels.

The timing and extent to which policyholders cancel their policies is another risk in these products. Surrender at an early stage, before the acquisition costs have been fully recovered and without adequate clauses for recovering commissions, may cause losses.

Endowment insurance

This category includes various products that accumulate a cash value in combination with term life insurance. Premiums are paid at inception or over the term of the contract.

The accumulation products pay benefits on the policy maturity date, subject to the survival of the insured. In addition, most policies also pay death benefits in the event of the death of the insured during the term of the contract. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product.

Minimum interest guarantees exist for all generations of accumulation products, except for universal life type products for which premiums are invested solely in equity funds. Older products include a 4% guarantee, in 1999, the guarantee decreased to 3%, and in 2013 the guarantee decreased to 0%.

Different kinds of profit sharing arrangements exist within these contracts. These are either paid in cash (mainly in the pension business, as described in the following section) or used to increase the amount insured. The levels for one common form of profit sharing are set by reference to external indices which are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolio have different remaining durations and interest rates. Together they are considered an approximation of the long-term rate of return on high-quality Dutch financial investments.

Term and whole life insurance

This type of insurance pays out death benefits in the event of death of the insured during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the policyholder. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profit sharing features which are based on external indices or return on related assets.

Pension and annuity insurance

This category includes products in the accumulation phase and in the payout phase. Payout commences at a date determined in the policy and usually continues until the death of the insured or the beneficiary. Premiums are paid at inception of the policy or during its accumulation phase. The contracts contain implicit minimum guarantees of 3% or 4%.

Accident and health insurance

Aegon Levensverzekering offers disability insurance. It does not offer products with extended health cover.

4.3.2. *Life insurance for account of policy holders*

Life insurance for account of policyholders includes different types of insurance and pension products in which the death benefit and value of the policy depend on the results from an investment portfolio. The premiums may be invested in different funds with different risk and return profiles, such as equities, bonds and combinations of these or investment products with guaranteed repayment of principal and interest. The customer bears the investment risk. The value of the policy depends on the result on the investments the policyholder has selected.

Aegon Levensverzekering receives a fee for managing these assets and fees for mortality risk, other guarantees and expenses. The sensitivity of income from asset management is mainly in the withdrawals by policyholders of the assets being managed and volatility of the financial markets.

Separate account group contracts

Separate account group contracts are large contracts holders which have an individually determined asset investment portfolio underlying the pension contract. The contracts are written with and without guarantee. The applicable guarantee usually consists of profit sharing being the minimum of the actuarial interest of either 3% or 4% or the realized return (on an amortized cost basis). If profit sharing turns into a loss, the minimum guarantee becomes effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. For guarantee contracts at market value, income at market value is monitored and the discount rate depends on the rate at inception of the contract.

In general, the guarantee is dependent on the lives of the insured so that their pension benefit is guaranteed. Large contract holders also share in the underwriting results (mortality and disability). The contract term is usually five years and the premiums are fixed for that period. With separate accounts there is a guaranteed benefit for the employees. Aegon Levensverzekering also bears a significant longevity risk with these group contracts.

Unit-linked insurance

With respect to Aegon Levensverzekering's individual unit-linked policies, the amount insured at maturity or upon death has a minimum guaranteed return of 3% or 4% if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income fund. No guarantees are given for equity investments only.

4.3.3. *Mortgages*

Aegon Levensverzekering offered mortgage loans to Dutch citizens with a mortgage right on real estate, an apartment right or a long lease situated in the Netherlands. As of 2012 new mortgage loans are provided by Aegon Hypotheken B.V., a subsidiary of Aegon Nederland N.V. The mortgage loans in the statement of financial position of Aegon Levensverzekering comprises of one of more loan types, such as Savings Mortgage and (Universal) Life Mortgage.

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

4.4. 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 Levensverzekering'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 Levensverzekering'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 Levensverzekering'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 Levensverzekering 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 Levensverzekering'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 Levensverzekering's future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

The sensitivity analyses below address investments for general account and guarantees issued by Aegon Levensverzekering. Investments for risk of policyholders are for the account and risk of third parties and do not lead to an increase in Aegon Levensverzekering's exposures, other than in the form of possible guarantees. See note 8 'Derivatives' and note 19 'Guarantees in insurance contracts for more information on the guarantees issued.

4.4.2. Currency exchange rate risk

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

4.4.3. Interest rate risk

Aegon Levensverzekering bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the

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

liabilities can offset this risk. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

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

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

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

The following table shows interest rates at the end of each of the last five years.

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%

For more information on derivatives, see note 4.4.10 'Derivatives risk'.

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 shareholders' equity arising from the impact on general account investments and offset due to liabilities from insurance and investment contracts. In general, increases in interest rates are beneficial to Aegon Levensverzekering. However, timing and valuation differences between assets and liabilities may cause short-term reductions in net income or solvency ratios as rates rise. Rising interest rates would also cause the fair value of the available-for-sale bond portfolio to decline and the level of unrealized gains could become too low to support recoverability of the full deferred tax asset triggering an allowance charge to income. The offsetting economic gain on the insurance and investment contracts is however not fully reflected in the sensitivities because many of these liabilities are not measured at fair value. Over time, the medium-term reduction in net income due to rising interest rates would be offset by higher net income in later years, everything else remaining equal. Therefore, higher interest rates are not considered a long-term risk to Aegon Levensverzekering. However, a long sustained period of low interest rates will erode net income due to lower returns earned on reinvestments.

Parallel movement of yield curve	2015 Estimated approximate effect		2014 Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-3	-1.471	-6	-1.412
Shift down 100 basis points	3	-582	6	-270

An upward interest rate shock negatively impacts equity due to a decreased market value of the fixed income portfolio.
In case of a downward interest rate shock, the market value of the insurance liabilities increases leading to a higher deficiency in the Liability Adequacy test, negatively impacting equity. The impact on equity is only partly offset by the increased revaluation reserve due to an increased market value of the fixed income portfolio. Due to the application Shadow loss recognition, the sensitivity of net income for parallel shifts in the yield curves remains limited.

Impact own credit spread on guarantees

The effect of the increase in the own credit spread in 2015 (2014: decrease) was a decrease of the guarantee provision by EUR 99 million (2014: increase of 324 million). Had the own credit spread been nil, the guarantee provision would have been EUR 628 million higher (2014: 541 million higher).

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 Levensverzekering typically bears the risk for investment performance which is equal to the return of principal and interest. Aegon Levensverzekering 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 Levensverzekering can incur defaults or other reductions in the value of these securities and loans, which could have a materially adverse effect on Aegon Levensverzekering's business, results of operations and financial condition.

The tables that follows shows the maximum exposure of Aegon Levensverzekering to credit risk from investments in general account financial assets as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 37 and 38.4 for further information on capital commitments and contingencies and on assets pledged, which may expose Aegon Levensverzekering to credit risk.

Positions for general account in the balance sheet

2015 Amounts in EUR million	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees	Master netting agreement	Surplus collateral	Total	
Shares	1.217	-	-	-	-	-	-	-	1.217
Debt securities	17.553	-	-	-	-	-	-	-	17.553
Mortgage loans	15.113	1.739	-	16.102	769	-	-4.299	14.312	801
Private loans	1.967	-	-	-	-	-	-	-	1.967
Other loans	119	-	-	-	-	-	-	-	119
Other financial assets	68	-	-	-	-	-	-	-	68
Derivatives with pos. values	6.894	664	172	-	-	6.076	-	6.913	-19
Reinsurance assets	12	-	-	-	-	-	-	-	12
Total	**42.942**	**2.403**	**172**	**16.102**	**769**	**6.076**	**-4.299**	**21.225**	**21.718**

2014 Amounts in EUR million	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees	Master netting agreement	Surplus collateral	Total	
Shares	416	-	-	-	-	-	-	-	416
Debt securities	18.096	-	-	-	-	-	-	-	18.096
Mortgage loans	16.518	1.648	-	17.324	978	-	-4.483	15.468	1.051
Private loans	1.246	-	-	-	-	-	-	-	1.246
Other loans	125	-	-	-	-	-	-	-	125
Other financial assets	139	-	-	-	-	-	-	-	139
Derivatives with pos. values	23.026	3.162	-	-	-	19.557	-	22.718	308
Reinsurance assets	13	-	-	-	-	-	-	-	13
Total	**59.580**	**4.810**	**-**	**17.324**	**978**	**19.557**	**-4.483**	**38.186**	**21.395**

Debt securities

Collateral for structured securities such as ABS, RMBS and CMBS is not included in the table above. Whilst collateral for structured securities is present, the collateral is however related to the cash flows for paying the principal and interest on the securities and not to mitigate credit risk. The credit risk management relating to structured securities is disclosed in the credit risk concentrations section of this note.

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

Aegon Levensverzekering also receives cash collateral or other financial assets for financial assets that have been transferred to another party under reverse repurchase agreements and securities lending transactions. See note 38 'Transfers of financial assets' for more information.

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 Levensverzekering 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 Levensverzekering'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. 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 Levensverzekering's 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 Levensverzekering, including reinsurance assets, is presented in the next table, organized by rating category and broken out by assets which are valued at faiue and assets which are valued at amortized cost. As of 2014, Aegon Levensverzekering 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	1.192	10.659	7	11.858
AA	96	3.582	4	3.682
A	202	1.144	1	1.347
BBB	465	2.086	-	2.551
BB	12	81	-	94
Assets not rated	15.232	8.179	-	23.410
Total on balance credit exposure	**17.199**	**25.732**	**12**	**42.943**
Of which past due and / or impaired assets	352	65	-	417

2014	Amortized cost	Fair value	Reinsurance assets	Total 2014
AAA	679	11.932	7	12.618
AA	182	2.699	4	2.886
A	193	1.419	-	1.612
BBB	191	2.014	1	2.206
BB	-	33	-	33
Assets not rated	16.644	23.582	-	40.226
Total on balance credit exposure	**17.889**	**41.678**	**13**	**59.580**
Of which past due and / or impaired assets	422	49	-	470

The ‘Assets not rated’ category relates to equities and derivatives (with positive value) 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)	1.171	1.184
ABSs- Other	107	170
Residential mortgage backed securities (RMBSs)	343	443
Commercial mortgage backed securities (CMBSs)	65	106
Total investments in unconsolidated structured entities	1.685	1.903
Financial - Banking	92	64
Financial - Other	158	81
Industrial	2.098	2.031
Utility	375	466
Sovereign exposure	13.146	13.551
Total	**17.553**	**18.096**
Of which past due and / or impaired assets	-	-

Credit risk concentration – mortgage loans

	2015	2014
Apartment	1.953	2.228
Office	10	11
Retail	10	-
Other commercial	23	45
Residential	13.117	14.234
Total	**15.113**	**16.518**
Of which past due and / or impaired assets	346	417

Fair value of the mortgage loan portfolio:	2015	2014
Fair value mortgage loans	17.569	19.111
The LTV was approximately	92,4%	95,3%
The part of the portfolio that is government guaranteed	50,2%	49,3%
Delinquency's in the portfolio (defined as 60 days in arrears)	1,1%	1,5%
Impairments during the year	6	1

Unconsolidated structured entities

Aegon Levensverzekering'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 Levensverzekering's interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Levensverzekering 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 Levensverzekering invests primarily in senior notes. Additional information on credit ratings for Aegon Levensverzekering'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 Levensverzekering are widely dispersed looking at the individual amount per entity, therefore Aegon Levensverzekering only has non-controlling interests in unconsolidated structured entities.

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

2015	Number of entities	Carrying amount
EUR 0 < 10 mln	73	211
> EUR 10 < 25 mln	27	440
> EUR 25 < 50 mln	13	460
> EUR 50 < 75 mln	4	240
> EUR 75 < 100 mln	2	162
> EUR 100 < 150 mln	1	101
> EUR 150 mln	-	-
At December 31	**120**	**1.614**

2014	Number of entities	Carrying amount
EUR 0 < 10 mln	72	258
> EUR 10 < 25 mln	27	460
> EUR 25 < 50 mln	15	493
> EUR 50 < 75 mln	6	342
> EUR 75 < 100 mln	2	162
> EUR 100 < 150 mln	1	116
> EUR 150 mln	-	-
At December 31	**123**	**1.830**

For the most significant structured entities the following table presents the maximum exposure to loss for Aegon Levensverzekering by type of structured entity and by seniority of interest. Also shown are the amounts of losses that in each case would be absorbed first by investors whose interests rank junior to those of Aegon Levensverzekering. If Aegon Levensverzekering has interests in multiple tranches of one individual structured entity, Aegon Levensverzekering's maximum exposure to loss is excluded from the amount shown as potential losses borne by more junior interests. In each case, the amounts shown reflect the fair value of those interests as at the reporting date. Furthermore, the table presents a comparison of Aegon Levensverzekering's interest with the total assets of those unconsolidated structured entities. The amount shown as total assets is based on the most current available information.

For unconsolidated structured entities in which Aegon Levensverzekering 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 Levensverzekering's interests in unconsolidated structured entities. Aegon Levensverzekering did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

Type of asset in unconsolidated entity	**2015** Interest income	Realized gains and losses	**Total**	**Investments**
Residential mortgage backed securities	7	12	**19**	343
Commercial mortgage backed securities	2	1	**2**	65
Asset Backed Securities	22	4	**25**	1.130
ABS's - Other	1	-	**1**	76
Total	**31**	**17**	**48**	**1.614**

Type of asset in unconsolidated entity	**2014** Interest income	Realized gains and losses	**Total**	**Investments**
Residential mortgage backed securities	7	11	**18**	443
Commercial mortgage backed securities	2	1	**2**	106
Asset Backed Securities	26	18	**44**	1.146
ABS's - Other	1	-	**1**	135
Total	**36**	**29**	**65**	**1.830**

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

4.4.7. Inflation risk

Aegon Levensverzekering offers products that cover inflation risk for policyholders. To hedge the inflation risks, Aegon Levensverzekering invests in financial instruments of which the value depends on the rate of inflation. This significantly reduces Aegon Levensverzekering's net exposure to inflation risk.

4.4.8. Past due and impaired financial assets

The tables that follow provide information on past due or impaired financial assets for Aegon Levensverzekering. 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 Levensverzekering takes the following factors into account when deciding whether to impair financial assets:

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

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

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

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

Impaired financial assets

	2015	2014
Shares	65	49
Mortgage loans	302	377
Other	6	2
Total	**372**	**428**

The increase in carrying amount in respect of impaired shares is fully caused by increased market values due to improved market conditions. The decrease in carrying amount of the mortgage loans is caused by lower volumes, partly offset by a higher average amount per volume.

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 15 million (2014: EUR 20 million).

Shares
Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is defined as an unrealized loss position for more than 6 months or a fair value of less than 80% of the original cost price of the investment. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment. If an available-for-sale equity security is impaired based upon the qualitative or quantitative impairment criteria of Aegon Levensverzekering, 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 the impairment criteria of Aegon Levensverzekering, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

Debt securities
Aegon Levensverzekering regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that not all amounts due (both principal and interest) will be collected as contractually scheduled.

Past due but not impaired financial assets

2015	0-6 months	6-12 months	> 1 year	2015
Mortgage loans	37	2	5	44
Other loans	-	-	-	-
Total	**37**	**2**	**5**	**44**

2014	0-6 months	6-12 months	> 1 year	2014
Mortgage loans	33	3	4	41
Other loans	-	-	2	2
Total	**33**	**3**	**7**	**43**

4.4.9. *Equity market risk and other investments risk*

Fluctuations in the equity, real estate and capital markets have affected Aegon Levensverzekering's profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where Aegon Levensverzekering bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts policyholder accounts where funds are invested in equities, backing variable annuities, unit-linked products and mutual funds. Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee earned by Aegon Levensverzekering on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees. Aegon Levensverzekering also operates an Investment and Counterparty Policy that limits the Group's overall counterparty risk exposure.

The general account equity, real estate and other non-fixed-income portfolio of Aegon Levensverzekering is as follows:

	2015	2014
Equity funds	1.216	415
Hedge funds	1	1
General account shares	**1.217**	**416**
Investments in real estate	949	917
Other financial assets	68	139
Total	**2.234**	**1.473**

The investments in real estate mainly comprise residential property.

The tables that follow present specific market risk concentration information for general account shares:

	2015	2014
Funds	1.216	416
Other	1	1
Total	**1.217**	**416**
Of which past due and / or impaired assets	65	49

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

The table that follows sets forth the closing levels of certain major indices at the end of the last five years.

	2015	2014	2013	2012	2011
S&P 500	2.044	2.059	1.848	1.426	1.258
Nasdaq	5.007	4.736	4.177	3.020	2.605
FTSE 100	6.242	6.566	6.749	5.898	5.572
AEX	442	424	402	343	312

Sensitivity analysis of net income and equity to equity markets

The sensitivity analysis of net income and equity to changes in equity prices is presented in the table below. The sensitivity of equity and net income to changes in equity markets reflects changes in the market value of Aegon Levensverzekering's portfolios and the strengthening of the provisions for guaranteed minimum benefits, when applicable.

	2015		2014	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Equity increase 10%	-22	-13	-	11
Equity decrease 10%	22	13	-4	-11
Equity increase 20%	-45	-25	-	21
Equity decrease 20%	45	25	-9	-21

In 2015 Aegon Levensverzekering acquired derivatives to lower Solvency II capital requirements for 'Equity Risk' leading to increased and reversed sensitivity of net income and equity for changes in equity markets compared to 2014.

4.4.10. *Derivatives risk*

Aegon Levensverzekering 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 Levensverzekering is exposed can be adequately managed using derivatives. In addition, a counterparty in a derivative contract may fail to meet its obligations towards Aegon Levensverzekering. Either situation can have significant adverse consequences for Aegon Levensverzekering's operations, operating results and financial position.

Aegon Levensverzekering 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.

4.4.11. *Liquidity risk*

Liquidity risk is inherent in much of Aegon Levensverzekering'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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering’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 Levensverzekering holds EUR 14.3 billion (2014: EUR 13.9 billion) 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 Nederland'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 Nederland had sufficient liquidity in different scenarios and for all tested periods at year-end 2015. Aegon Nederland'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 Nederland expects to be able to continue to meet its liabilities.

The tables below on contractual maturities of liabilities do not provide information on liabilities held for the account and risk of policyholders as Aegon Nederland does not run a liquidity risk on them.

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 Levensverzekering 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	> 10 year	Total 2015
Long-term loans and group loans	-	2.769	1.070	1	1.087	4.927
Savings deposits and investment contracts	-	10	38	49	143	239
Other financial liabilities	380	551	779	12	29	1.751
Total	**380**	**3.330**	**1.887**	**62**	**1.259**	**6.918**

2014	On demand	<1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2015
Long-term loans and group loans	-	4.885	3.572	1	602	9.060
Savings deposits and investment contracts	-	10	39	47	153	249
Other financial liabilities	1.101	1.337	14	18	44	2.514
Total	**1.101**	**6.232**	**3.626**	**66**	**798**	**11.823**

Expected undiscounted cash flows relating to insurance contracts

Aegon Levensverzekering'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 Levensverzekering'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 exceeds the corresponding liability amounts included in notes 17 and 18 on 'Insurance contracts' and 'Insurance contracts for account of policyholders'.

2015	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2015
Insurance contracts	1.193	4.841	5.990	36.281	48.304
Insurance contracts for account policyholders	739	3.218	4.560	24.900	33.417
Savings deposits and investment contracts	17	60	70	178	325
Total	**1.949**	**8.119**	**10.620**	**61.359**	**82.046**

2014	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2015
Insurance contracts	1.187	4.760	5.884	33.908	45.740
Insurance contracts for account policyholders	1.366	5.346	5.185	25.695	37.592
Savings deposits and investment contracts	18	69	79	202	369
Total	**2.572**	**10.176**	**11.147**	**59.806**	**83.701**

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	-	1.301	6.225	12.161	27.295	46.982
Cash outflows	-	-1.895	-7.224	-12.017	-23.806	-44.941

2014	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2014
Cash inflows	-	3.227	8.007	16.040	40.416	67.691
Cash outflows	-	-2.921	-8.357	-15.878	-36.000	-63.156

4.4.12. Underwriting risk

General information

Aegon Levensverzekering’s earnings depend significantly upon the extent to which actual claims experience differs from the assumptions used in setting the prices for products and establishing the technical liabilities and liabilities for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, Aegon Levensverzekering may be required to increase liabilities, which could reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the statement of financial position and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability. This could have a materially adverse effect on Aegon Levensverzekering’s business, results of operations and financial condition.

Sources of underwriting risk include policyholder behavior (such as lapses or surrender of policies) and policy claims (such as mortality and morbidity). In general, Aegon Levensverzekering is at risk if policy lapses increase as sometimes Aegon Levensverzekering is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, Aegon Levensverzekering sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance, and sells certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. Aegon Levensverzekering is also at risk if expenses are higher than assumed by management.

Aegon Levensverzekering 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 Levensverzekering’s business units also perform experience studies for underwriting risk assumptions, comparing Aegon Levensverzekering’s experience to industry experience as well as combining Aegon Levensverzekering’s experience and industry experience based on the depth of the history of each source to Aegon Levensverzekering’s underwriting assumptions. Where policy charges are flexible in products, Aegon Levensverzekering uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon Levensverzekering also has the ability to (partly) reduce expense levels over time, thus mitigating unfavorable expense variation.

<u>Notes to the table</u>
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 mortality and morbidity rates over best estimate. Increases in mortality rates lead to an increase in the level of benefits and claims. 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 with mortality or morbidity rates 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. Life insurers are also exposed to longevity risk. Increased life expectation above Aegon Levensverzekering's assumed life expectation at the time of underwriting negatively impacts its results.

	2015		2014	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
20% increase in lapse rates	1	1	1	1
20% decrease in lapse rates	-1	-1	-1	-1
10% increase in mortality rates	-25	-25	-16	-16
10% decrease in mortality rates	25	25	16	16
10% increase in morbidity rates	-2	-2	-2	-2
10% decrease in morbidity rates	2	2	2	2

Longevity

Aegon Levensverzekering hedges the risk of future longevity increases in the Netherlands related to a part of its insurance liabilities. Over the past years Aegon Levensverzekering has done three transactions to hedge this risk, including two longevity index derivatives and one reinsurance contract.

In 2012, Aegon Levensverzekering partially offset the risk of future longevity increases related to a part of its insurance liabilities by buying a longevity index derivative from Deutsche Bank. This derivative has a two-sided exit option, including settlement, after 10 years and had a tenor of 20 years at inception. The payout is based on an index of underlying liabilities and will payout when, over the duration of the contract, the mortality rates have decreased more than a pre-determined percentage compared to the base scenario at inception of the derivative.

Aegon Levensverzekering implemented a second longevity hedge in 2013. This hedge was a reinsurance agreement with a reinsurance entity, Blue Square Re, a 100% subsidiary of Aegon N.V. and covers underlying longevity reserves in the Netherlands of EUR 1,040 million.

To further implement the strategy of reducing longevity risk, a third hedge was implemented in July 2015 which is also based on an index of underlying liabilities. This currently out-of-the money derivative has a one-sided option for Aegon Nederland to exit after 5 years or after 10 years and has a tenor of 50 years.

4.4.13. Other risks

Catastrophes

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

Legislation and regulation

Aegon Levensverzekering's insurance activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation of insurance products may affect Aegon Levensverzekering's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Levensverzekering'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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 please refer to 37.4. “Litigations and proceedings”.

5. Intangible assets

	31-12-2015	31-12-2014
VOBA insurance contracts	27	31
	27	**31**

2015

Cost	VOBA ins. contr	Total 2015
At January 1	74	75
At December 31	**74**	**75**
Accumulated amortization / impairment		
At January 1	43	44
Amortization / impairment through income statement	5	5
At December 31	**48**	**49**
Net book value at December 31	**27**	**27**

2014

Cost	VOBA ins. contr	Total 2014
At January 1	74	74
Other movements	-	1
At December 31	**74**	**75**
Accumulated amortization / impairment		
At January 1	37	37
Amortization / impairment through income statement	5	6
Other movements	-	1
At December 31	**43**	**44**
Net book value at December 31	**31**	**31**

Intangible assets have a finite useful life and are amortized accordingly. VOBA is amortized over the term of the related contracts; the average remaining amortization period is 5.7 years. Amortization and depreciation through the income statement is included in note 31 'Commissions and expenses'. None of the intangible assets have titles that are restricted or have been pledged as securities for liabilities.

6. Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and investments in investment funds accounted for according to the equity method. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 36.

	Note	31-12-2015	31-12-2014
Available-for-sale financial assets (AFS)	6.1	17.688	18.286
Loans (amortized cost)	6.1	17.199	17.889
Financial assets at fair value through profit or loss (FVTPL)	6.1	1.150	366
Total financial assets, excluding derivatives		**36.037**	**36.541**
Investments in real estate	6.3	949	917
Total investments for general account		**36.986**	**37.458**

6.1. Financial assets, excluding derivatives

2015	AFS	Loans	FVTPL	Total	Fair value
Shares	67	-	1.150	1.217	1.217
Debt securities	17.553	-	-	17.553	17.553
Mortgage loans	-	15.113	-	15.113	17.569
Private loans	-	1.967	-	1.967	2.197
Policy loans	-	2	-	2	2
Other	68	117	-	185	185
At December 31	**17.688**	**17.199**	**1.150**	**36.037**	**38.724**

2014	AFS	Loans	FVTPL	Total	Fair value
Shares	51	-	366	416	416
Debt securities	18.096	-	-	18.096	18.096
Mortgage loans	-	16.518	-	16.518	19.111
Private loans	-	1.246	-	1.246	1.552
Policy loans	-	3	-	3	3
Other	139	122	-	262	262
At December 31	**18.286**	**17.889**	**366**	**36.541**	**39.440**

	2015	2014
Current	3.123	1.778
Non-current	32.914	34.764
Total financial assets, excluding derivatives	**36.037**	**36.541**

Reference is made to note 35 for information on fair value measurement.

Certain mortgage loans shown within the category amortized loans are designated in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 38 million (2014: EUR 46 million). None of the financial assets has been reclassified during the financial year.

6.2. 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	95	96
Addition charged to income statement	6	1
Amounts written off	-7	-3
At December 31	**94**	**95**

6.3. Investments in real estate

	2015	2014
At January 1	917	905
Additions	38	114
Disposals	-67	-108
Fair value gains / (losses)	61	6
At December 31	**949**	**917**

Aegon Levensverzekering's investments in real estate consists mainly of residential property. Aegon Levensverzekering has entered into long-term residential property leases that can be terminated subject to a short-term notice by the tenant. Although most rental contracts have a clause that stipulates that the annual rent can be increased based on a fixed schedule or market conditions, for the majority of these residences the possibility of increasing rent is limited. Under Dutch law, the maximum annual rent increase on residential property rented in the affordable housing segment[3] is specified by the Dutch national government and equals the annual inflation rate plus a small margin.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal. The entire portfolio of investments in real estate was appraised by independent external valuators.

<u>Rental income</u>
Rental income is reported as part of investment income in the income statement, see note 26. Additional information on rental income is presented in the table below:

	2015	2014
Theoretical rental income	62	62
Minus: missed rental income on vacant investment property	1	2
Gross rental income	61	60
Direct operating expenses of property that generated rental income	-17	-17
Net income on real estate	**43**	**43**

7. Investments for account of policyholders

Investments for account of policyholders comprises financial assets held by investment funds to meet obligations to third parties. Investment returns on these assets are passed on to the policyholder. The fees for managing these investments are included in note 27 'Fee and commission income'. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 36.

[3] The maximum monthly rent in the affordable housing segment ('liberalisatiegrens' or 'huurtoeslaggrens') as of January 1, 2015 is EUR 710,68.

	2015	2014
Real estate	296	247
Shares	7.073	7.890
Debt securities	12.793	14.790
Mortgage loans	1.616	1.065
Other financial investments	911	532
Cash and cash equivalents	1.648	2.045
	24.336	**26.570**

Almost all equities and bonds for account of policyholders are listed.

8. Derivatives

	Derivative asset		Derivative liability	
	31-12-2015	31-12-2014	31-12-2015	31-12-2014
Derivatives not designated in a hedge	6.891	23.026	7.456	21.231
Derivatives designated as cash flow hedges				
Derivatives designated as fair value hedges	3	-	46	50
Total	**6.894**	**23.026**	**7.502**	**21.281**

	31-12-2015	31-12-2014
Current	-23	-18
Non-current	-585	1.763
Total net derivatives	**-608**	**1.745**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 36.

8.1. Use of derivatives

Derivatives not designated in a hedge – general account

	Derivative asset		Derivative liability	
	31-12-2015	31-12-2014	31-12-2015	31-12-2014
Derivatives held as an economic hedge	6.891	23.026	6.031	19.506
Bifurcated embedded derivatives	-	-	1.425	1.725
Total	**6.891**	**23.026**	**7.456**	**21.231**

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

Embedded derivatives that are not closely related to the host contracts have been bifurcated and are recorded at fair value in the statement of financial position, along with derivatives not used as hedges. These bifurcated embedded derivatives are embedded in unit-linked insurance contracts in the form of guarantees for minimum benefits.

The fair value of derivatives on both the asset and liability side of the consolidated statement of financial position decreased during 2015. This decrease is mainly due to the unwinds of mutually offsetting derivatives.

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

For more information on the guarantees refer to note 19 'Guarantees in insurance contracts'.

Aegon Levensverzekering partially offsets the risk of future longevity increases related to a part of its insurance liabilities by buying longevity index derivatives. These longevity derivatives will pay out if the mortality rates in future years have decreased more than a pre-determined percentage compared with the base scenario at the moment of signing the contract. To further implement the strategy of reducing longevity risk, Aegon Levensverzekering implemented an additional longevity hedge in July 15, 2015. This hedge is based on an index of underlying liabilities and provides out-of-the money protection. The tenor is 50 years, while Aegon Levensverzekering has a one-sided option to exit after 5 years and after 10 years.

Derivatives designated as fair value hedges

Aegon Levensverzekering'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.

For the year ended 31 December 2015, Aegon Levensverzekering recognized EUR 38 million of fair value changes on mortgage loans under fair value hedge accounting under the EU carve-out in the income statement (2014: EUR 46 million). This resulted in a higher carrying value of the mortgage loans.

This amount was offset by EUR 38 million fair value changes recognized on the derivatives used as hedging instrument (2014: EUR 46 million). This offset is only possible when using the EU carve-out on hedge accounting as otherwise the hedge would not have been "highly" effective as required by IFRS. This means that profit (before tax) would have been EUR 38 million lower under IFRS as issued by the IASB (2014: EUR 46 million).

The total net accounting ineffectiveness under the EU carve-out recognized in the income statement was EUR -5 million in 2015 (2014: nearly nil). As at December 31, 2015, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR 43 million (2014: EUR 50 million).

	31-12-2015	31-12-2014
Fair value changes mortgage loans recognized in income statement under the EU carve-out	-12	46
Offset amount of fair value changes recognized on derivatives used as hedging instrument	7	-46
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-5**	**-**

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

	31-12-2015	31-12-2014
Presented as asset	3	-
Presented as liability	46	50
Total	**-43**	**-50**

9. Long-term loans and group loans

	31-12-2015	31-12-2014
Loan Aegon Nederland N.V.	850	850
Loan Aegon Hypotheken B.V.	1.328	1.375
Loan Aegon Derivatives N.V.	89	-
Other intercompany loans	36	-
At December 31	**2.303**	**2.225**
current	1.343	1.010
non-current	960	1.215
Total	**2.303**	**2.225**

The loan to Aegon Nederland amounts to EUR 850 million and is provided by Optas Pensioenen in 2007 with an interest rate of 6% and an indefinite maturity. This loan is considered to be non-current. The other group loans relates to loans to Aegon Hypotheken for a total amount of EUR 1.328 million (2014: EUR 1,375 million), mainly with a floating interest rate (euribor). The loan with Aegon Derivatives N.V. is cash collateral received under derivatives transactions. Aegon Derivatives N.V. settles this collateral with external parties on behalf of entity Levensverzekering. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled daily. These loans are current loans.

10. Investments in associates

	2015	2014
At January 1	19	18
Share in net income	2	1
Dividend	-2	-1
Share in changes in associates' equity	-1	1
At December 31	**19**	**19**

All associates are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in associates include stakes in insurance companies that are required to maintain a minimum solvency margin based on local directives. Such restrictions can affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future. There are no unrecognized shares of losses in associates. The financial statements of all associates have the same reporting date as the Aegon Levensverzekering.

Summarized financial information of material associates

	31-12-2015	31-12-2014
Summarized statement of financial position		
Current assets	17	19
Non-current assets	100	91
Total assets	**117**	**110**
Current liabilities	3	2
Non-current liabilities	46	47
Total liabilities	**49**	**49**
Net assets	68	61
Summarized statement of comprehensive income		
Revenues	16	10
Profit or loss from continuing operations	9	4
Income tax expense or income	-2	-1
Post-tax profit / (loss) from continuing operations	**7**	**3**
Other comprehensive income	-2	2
Total comprehensive income	**5**	**6**
Dividends received from associates	**2**	**1**

The summarized financial information presented above are the amounts included in the IFRS financial statements of the associate 'N.V. Levensverzekering-Maatschappij 'De Hoop', adjusted for fair value adjustments made at the time of acquisition and for differences in accounting policies. Aegon Levensverzekering does not have other associates. A reconciliation of the summarized financial information to the carrying amounts of the associates is as follows:

	31-12-2015	31-12-2014
Net assets of associates as presented above	68	61
Net assets of associates excluding fair value adjustments	68	61
Group share of net assets of associates, excluding fair value adjustments	23	20
Dividend received from associates	-2	-1
Carrying amount of investments in material associates	**20**	**19**

Refer to note 40.1 'Investments in associates' for a listing of the principal investments in associates and the percentage holding of Aegon Levensverzekering.

11. Investments in joint ventures

	2015	2014
At January 1	789	819
Additions	13	6
Share in net income	76	23
Dividend	-43	-59
Share in changes in joint ventures' equity	2	-
At December 31	**837**	**789**

All joint ventures are unlisted and are accounted for using the equity method and are considered to be non-current. There are no unrecognized shares of losses in joint ventures. The financial statements of all joint ventures have the same reporting date as the group.

The summarized financial information presented below are the amounts included in the IFRS financial statements of the joint ventures adjusted for fair value adjustments made at the time of acquisition and for differences in accounting policies.

<u>Summarized financial information of material joint ventures</u>
Aegon Levensverzekering considers its investment in AMVEST Vastgoed B.V. (AMVEST) as a material joint venture. The summarized financial information presented below are the amounts included in the IFRS financial statements of AMVEST on a 100% basis.

	31-12-2015	31-12-2014
Summarized statement of financial position		
Cash and cash equivalents	176	111
Other current assets	206	221
Total current assets	**382**	**332**
Non-current assets	2.070	1.739
Total assets	**2.452**	**2.071**
Other current liabilities	138	55
Total current liabilities	138	55
Non-current financial liabilities excluding trade payables and other provisions	426	428
Other non-current liabilities	-	10
Total non-current liabilities	426	438
Total liabilities	**564**	**494**
Net assets	**1.888**	**1.577**
Summarized statement of comprehensive income		
Revenues	78	73
Interest expense	-10	-11
Profit or loss from continuing operations	183	40
Income tax expense or income	-1	6
Post-tax profit or loss from continuing operations	**182**	**46**
Post-tax profit or loss from discontinued operations		
Other comprehensive income	5	-
Total comprehensive income	**187**	**46**
Dividends received from joint ventures	43	59

Refer to note 40.1**Error! Reference source not found.** ‘Investments in associates and joint ventures’ for a listing of the principal investments in joint ventures and the percentage holding of Aegon Levensverzekering.

A reconciliation of the summarized financial information to the carrying amounts of the joint venture is as follows:

	31-12-2015	31-12-2014
Net assets of joint venture as presented above	1.888	1.577
Group share of net assets of joint venture, excluding fair value adjustments	837	789
Carrying amount of investments in joint ventures	**837**	**789**

12. Reinsurance assets

	2015	2014
Life insurance general account	12	13
At December 31	**12**	**13**
Current	-	-
Non-current	12	13
	12	**13**

Amounts due from reinsurers in respect of claims already paid by Aegon Levensverzekering on contracts that are reinsured are included in note 14.1 'Receivables.

Movements during the year in reinsurance assets

2015	Life insurance		Total
	General account	For account policyholders	
At January 1	13	-	13
Gross premiums and deposits	4	-	4
Insurance liabilities released	-6	-	-6
At December 31	**12**	**-**	**12**

2014	Life insurance		Total
	General account	For account policyholders	
At January 1	15	-	15
Gross premiums and deposits	4	-	4
Insurance liabilities released	-7	-	-7
At December 31	**13**	**-**	**13**

13. Deferred expenses

	2015	2014
At January 1	114	141
Costs deferred	13	10
Amortization through income statement	-30	-37
At December 31	**96**	**114**
Current	18	22
Non-current	79	92
	96	**114**

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

In December 2013, Aegon Levensverzekering N.V. entered into a longevity reinsurance contract with Blue Square Re N.V., a 100% subsidiary of Aegon N.V., Aegon Levensverzekering's ultimate parent company. The contract reinsures a specified portfolio of insurance contracts against possible future mortality improvements. The size of the underlying portfolio is EUR 1,040 million. Blue Square Re will pay benefits as long as the participants live and receive fixed payments from Aegon Levensverzekering N.V. EUR 29.5 million was recognized as deferred cost of reinsurance with regard to this reinsurance contract, which will be amortized over the duration of the underlying insurance contracts. The amortization pattern is based on the cash flows of the fixed paying leg at contract inception. As at December 31, 2015 EUR 24.7 million remains (2014: EUR 26.2 million).

14. Other assets and receivables

	Note	31-12-2015	31-12-2014
Receivables	14.1	586	453
Accrued income	14.2	479	490
Total		**1.066**	**943**

14.1. Receivables

	31-12-2015	31-12-2014
Receivables from reinsurers	4	3
Investment debtors	42	55
Receivables from policyholders	138	224
Current account with Aegon Nederland N.V.	303	123
Other	110	56
Provision for doubtful debts	-11	-9
Total	**586**	**453**
Current	563	419
Non-current	23	34
Total	**586**	**453**

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

Information on provision for doubtful debts:

	31-12-2015	31-12-2014
Policyholders, brokers and agents	11	9
Total	**11**	**9**

Movement schedule

	2015	2014
At January 1	9	3
Additions charged to earnings	8	5
Unused amounts reversed through the income statement	-6	-
At December 31	**11**	**9**

14.2. Accrued income

	2015	2014
Accrued interest	469	480
Prepaid expenses	11	9
At December 31	**479**	**490**

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

15. Cash and cash equivalents

	31-12-2015	31-12-2014
Cash at bank and in hand	363	75
Short-term deposits	1.809	3.096
Money market investments	2.659	2.950
Total	**4.832**	**6.121**

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.

16. Equity

	31-12-2015	31-12-2014
Share capital	23	23
Share premium	305	305
Revaluation reserves	1.626	1.590
Retained earnings	3.142	2.508
Total	**5.096**	**4.426**

16.1. Share capital

	31-12-2015	31-12-2014
Authorized share capital	100	100
Not issued	77	77
	23	**23**

The authorized share capital is EUR 100 million, divided into 100.000 shares of EUR 1.000 nominal value each, of which 22.690 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2015 Aegon Levensverzekering paid no dividend (2014: nil) 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 Levensverzekering 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.

Aegon Nederland, the indirect parent company of Optas Pensioenen N.V. and parent company of Aegon Levensverzekering, announced in April 2014 that it had reached agreement with BPVH - a foundation representing Dutch harbor workers and employers - on removing restrictions on the capital of the harbor's former pension fund Optas Pensioenen N.V., thereby ending a long-lasting dispute. After approval by the court, which was granted in January 2015, restrictions were removed three months after the date of the court ruling, when the appeal period expired. As the restrictions were removed, both the statutory reserve of EUR 1,050 million per December 31, 2014 and the amounts included in the legal reserves were transferred to retained earnings. Included in Aegon Levensverzekering's legal reserves was an amount of EUR 298 million per December 31, 2014 related to Optas Pensioenen N.V. which represented the increase in statutory reserves of Aegon Levensverzekering since the acquisition of Optas Pensioenen N.V.

16.2. Revaluation reserves

	2015	2014
At January 1	1.590	475
Gross revaluation	301	1.830
Net (gains) / losses transferred to income statement	-256	-280
Tax effect	-9	-434
At December 31	**1.626**	**1.590**

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.

Due to the deficiency in the liability adequacy test in 2015, the insurance contract liabilities were increased by EUR 158 million (2014: EUR 829 million). This addition to the insurance contract liabilities was set off against the revaluation reserve by applying shadow accounting. For more information see note 2.17.5 “shadow accounting” and note 17 “insurance contracts”.

	31-12-2015	31-12-2014
Shares	39	35
Debt securities	1.691	2.175
Investments in joint ventures	-3	-4
Participations	25	32
Investments in associates	18	18
Total AFS investments	**1.770**	**2.256**
Shadow accounting	-144	-666
Total revaluation reserves	**1.626**	**1.590**

17. Insurance contracts

This account relates entirely to life insurance contracts.

Movements during the year in life insurance

Movements during the year:	2015	2014
At January 1	31.317	25.021
Gross premiums	1.180	2.809
Unwind of discount / interest credited	928	868
Insurance liabilities released	-1.813	-1.622
Changes in valuation of expected future benefits	-1.371	3.800
Portfolio transfers and acquisitions	-14	191
Expense loadings released	-88	-95
Net exchange differences	1	4
Movement unamortized interest rate contracts	518	295
Other	1.059	47
At December 31	**31.717**	**31.317**

The insurance contract liabilities increased with EUR 400 million (2014: 6,296 million). The change in valuation of expected future benefits mainly relates to a decreased value of guarantees due to increased interest rates. Line item ‘other’ mainly consists of pension contracts which upon renewal in 2015 were transferred from ‘insurance contracts for account of policyholders’ to ‘insurance contracts’.

The liability adequacy test is performed annually on the insurance contracts. Due to the deficiency in 2015, the insurance contract liabilities were increased by EUR 158 million (2014: EUR 829 million). This addition to the insurance contract liabilities was offset against the revaluation reserve by applying shadow accounting. Due to the deficiency in the liability adequacy test in 2015 and 2014, the insurance liabilities as per year-end 2015 and 2014 are de facto measured at accounting principles used in the liability adequacy test. For more information on the accounting principles used in the liability adequacy test refer to note 2.17.5 “shadow accounting” and note 3.3 “valuation of assets and liabilities arising from life insurance contracts”.

Movements during the year in deferred interest rebates

	2015	2014
At January 1	539	245
Rebates or future interest compensation granted	559	302
Amortization through income statement	-41	-7
At December 31	**1.058**	**539**

The deferred interest contracts forms part of the insurance liabilities of Aegon Levensverzekering. The correction to the premium payable on deferred interest contacts (‘contracts granted and received during the year’) was a surplus in 2015 and 2014. As a result of the low interest rate environment, policyholders paid a surplus on the premium where previously a premium discount was given.

The life insurance liabilities include the provision for interest guarantees. See note 19 ‘Life contingent guarantees’ for more information.

18. Insurance contracts for account of policy holders

Movements during the year in insurance contracts for account of policy holders

	2015	2014
At January 1	28.174	24.977
Gross premiums	1.085	1.133
Unwind of discount / interest credited	659	1.985
Change in unit linked account value	139	613
Insurance liabilities released	-1.977	-1.337
Changes in valuation of expected future benefits	-1.076	1.195
Portfolio transfers and acquisitions	35	-202
Expense loadings released	-142	-143
Other	-1.060	-47
At December 31	**25.835**	**28.174**

Line item 'other' mainly consists of pension contracts which upon renewal in 2015 were transferred from 'insurance contracts for account of policyholders' to 'insurance contracts'.

19. Guarantees in insurance contracts

For financial reporting purposes Aegon Levensverzekering distinguishes between the following types of minimum guarantees in her insurance contracts:

- Financial guarantees: These guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to note 19.1);
- Minimum investment return guarantees: these guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (refer to note 19.2).

19.1. Financial guarantees

Individual variable unit-linked products have a minimum benefit guarantee if premiums are invested in certain funds. The sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (in the range of 3% to 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

The following table provides information on the liabilities for financial guarantees for minimum benefits, net of present value of the expected future premiums that are received to cover these guarantees:

	2015	2014
At January 1	1.725	1.174
Changes in valuation of expected future benefits	-300	551
At December 31	**1.425**	**1.725**

Balances are included in the derivatives liabilities on the face of the statement of financial position; refer to note 8 'Derivatives'.

The net amount at risk represents the difference between the amount payable under the guarantees and the account value at balance sheet date. Account value reflects the actual fund value for the policyholders.

19.2. Minimum investment return guarantees

The traditional life and pension products offered by Aegon Levensverzekering include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of traditional accumulation products written. Older generations contain a 4% guarantee; in 1999 the guarantee decreased to 3% and in 2013 the guarantee decreased to 0%.

The traditional group pension contracts offered by Aegon Levensverzekering include large group insurance contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the maximum of 0% and the realized return on an asset portfolio specified in the policy conditions adjusted for technical interest rates ranging from 3% to 4%. If the adjusted return is negative, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses within the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period.

These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts, net of the present value of the expected future premiums that are received to cover these guarantees.

	2015	2014
At January 1	5.747	2.608
Changes in valuation of expected future benefits	-732	3.139
At December 31	**5.015**	**5.747**

The net amount at risk represents the sum of the differences between the guaranteed and actual amount that is credited to the policyholders. For Individual policies only positive differences are included, for Group pensions contracts carry forwards of negative differences are recognized.

19.3. Fair value measurement of guarantees in insurance contracts

The fair values of guarantees mentioned above are calculated as the present value of future expected guarantee payments to policyholders less the present value of assessed rider fees attributable to the guarantees.

Aegon Levensverzekering utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees.

Sensitivities on guarantees

		2015	2014
Estimated approximate effect on guarantees:			
Credit spread	+ 20 bp	-386	-323
	- 20 bp	413	417
Equity volatility	+ 5 %	51	43
	- 5 %	-45	-38

The sensitivity of guarantees to credit spread increased during 2015 due to improved modeling of the sensitivities for own credit spread for a number of profit sharing contracts. The sensitivity of equity volatility shocks increased in 2015 as less of the equity volatility risk was hedged compared to 2014.

20. Investment contracts

Movements in investment contracts

	2015	2014
At January 1	249	259
Withdrawals	-10	-10
At December 31	**239**	**249**

This item relates to the Verzekeringsgroep Metaalindustrie (VGMI) contract and is repaid evenly over 26 years starting from 2012. The fair value as at December 31, 2015 is EUR 241 million (2014: EUR 273 million).

21. Long-term borrowings and group loans

	2015	2014
Debentures and other loans	2.807	4.454
Subordinated loan with Aegon Nederland	600	600
Intercompany loans	1.520	4.006
Total	**4.927**	**9.060**
Current	2.769	4.885
Non-current	2.158	4.175
	4.927	**9.060**

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

21.1. Bonds and other long-term loans

	Coupon rate	Coupon date	Issue / maturity	FORD	Legal maturity date	2015	2014
EUR 1.018 million ‘SAECURE 7’ RMBS Note	floating	quarterly	2010 / 15	Aug. 2015	Aug. 2093	-	773
EUR 842 million ‘SAECURE 9’ RMBS Note	floating	quarterly	2010 / 16	March 2016	Sep. 2092	564	624
EUR 1.500 million ‘SAECURE 10’ RMBS Note	floating	quarterly	2011 / 16	Febr. 2016	Febr. 2094	1.094	1.196
USD 600 million 'SAECURE 11' RMBS Note	floating	quarterly	2012 / 15	Jul. 2015	Jul. 2092	-	434
EUR 212 million 'SAECURE 11' RMBS Note	floating	quarterly	2012 / 15	Jul. 2015	Jul. 2092	-	186
EUR 1.365 million 'SAECURE 12' RMBS Note	floating	quarterly	2012 / 17	Oct. 2017	Oct. 2092	1.140	1.233
Other	-	-				9	8
Total						**2.807**	**4.454**

The RMBS notes were issued under the Dutch Saecure program. The net proceeds were used to finance a part of the existing Dutch mortgage portfolio of Aegon Levensverzekering. The expected maturity of the RMBS notes is derived from the FORD which stands for the first optional redemption date. At this date Aegon Levensverzekering has the first right to repurchase the underlying mortgages from the SPE. The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. All these notes are fully collateralized by mortgage loans which are part of the general account investments of Aegon Levensverzekering.

21.2. Subordinated group loans

This item relates entirely to the subordinated loan Aegon Levensverzekering received in 2007 from Aegon Nederland. This loan was originally EUR 850 million and has an indefinite duration; the term of notice is five year. The subordination is to other creditors. The interest rate is 6%. In September 2010 EUR 250 million was repaid after approval of DNB.

21.3. Intercompany loans

	2015	2014
Loan Aegon Derivatives N.V.	753	3.147
Loan Aegon Hypotheken B.V.	735	780
Other intercompany loans	32	79
At December 31	**1.520**	**4.006**
current	1.035	79
non-current	485	3.927
Total	**1.520**	**4.006**

The loan with Aegon Derivatives N.V. is cash collateral received under derivatives transactions. Aegon Derivatives N.V. settles this collateral with external parties on behalf of Aegon Levensverzekering. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled daily. These loans are current loans.

22. Provisions

Movements in provisions

2015	Restructuring	Other	Total 2015
At January 1	-	6	6
Other movements	-	-	-
At December 31	**-**	**6**	**6**

2014	Restructuring	Other	Total 2015
At January 1	-	6	6
Other movements	-	-	-
At December 31	**-**	**6**	**6**

	2015	2014
Current	4	4
Non-current	2	2
	6	**6**

23. Deferred tax

	31-12-2015	31-12-2014
Deferred tax assets	588	783
Deferred tax liabilities	926	1.071
Total net deferred tax liability / (asset)	**338**	**288**

Movements in deferred tax

2015	Real estate	Financial assets	Insurance contracts	Def. expenses VOBA and intang. assets	Other	Total 2015
At January 1	318	741	-780	12	-3	288
Charged to income statement	31	-33	45	-2	-	41
Charged to equity	-	-141	150	-	-	9
At December 31	**349**	**567**	**-585**	**11**	**-3**	**338**

2014	Real estate	Financial assets	Insurance contracts	Def. expenses VOBA and intang. Assets	Other	Total 2014
At January 1	319	199	-651	14	-3	-121
Charged to income statement	-1	-57	35	-2	-	-25
Charged to equity	-	598	-164	-	-	434
At December 31	**318**	**741**	**-780**	**12**	**-3**	**288**

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 paragraph 2.1.2.

Loss carry forward
At year end, there were no deferred tax assets for pre-consolidation losses available for carry forward against future taxable profits (2014: nil).

24. Other liabilities and accruals

	Note	31-12-2015	31-12-2014
Other liabilities	27.1	1.678	2.463
Accruals	27.2	68	45
Total		**1.745**	**2.508**

24.1. Other liabilities

	31-12-2015	31-12-2014
Payables due to policyholders	367	816
Payables out of reinsurance	74	71
Investment creditors	84	419
Income tax payable	-	3
Social security and taxes payable	37	31
Repurchase agreements	1.058	1.049
Other creditors	57	74
Total	**1.678**	**2.463**
Current	859	2.389
Non-current	819	74
	1.678	**2.463**

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

24.2. Accruals

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

25. Premium income and premium to reinsurers

	2015		2014	
	Gross	Reinsurance	Gross	Reinsurance
Life	2.265	5	3.942	4
Total	**2.265**	**5**	**3.942**	**4**

26. Investment income

	2015	2014
Investment income related to general account	1.187	1.285
Investment income for account of policyholders	503	990
	1.690	**2.275**

Investment income from:

	2015	2014
Interest income out of:		
- Debt securities	711	1.038
- Loans	707	733
- Other investments	41	101
Dividend income from shares	186	361
Rental income from real estate	43	43
Total	**1.690**	**2.275**

Interest income accrued on impaired financial assets	15	20
Interest income on financial assets that are not carried at fair value through profit or loss	1.101	1.150

Investment income from financial assets for general account:

	2015	2014
Available-for-sale	394	407
Loans	714	740
Fair value through profit or loss	-	1
Real estate	43	43
Derivatives	42	91
Other	-7	2
Total	**1.187**	**1.285**

27. Fee and commission income

	2015	2014
Fee income from asset management	70	62
Administration fee income	3	2
Total	**73**	**63**

28. Results from financial transactions

	2015	2014
Realized gains / (losses) on financial investments	305	365
Gains / (losses) on investments in real estate	61	6
Net fair value change of derivatives	-391	2.841
Net fair value change on financial assets at fair value through profit or loss for account of policyholder	-244	2.970
Net foreign currency gains / (losses)	-3	-19
Total	**-272**	**6.164**

Realized gains and losses on financial investments

	2015	2014
Shares (AFS)	23	149
Debt securities and money market investments (AFS)	233	130
Loans	49	85
Total	**305**	**365**

Net fair value change of derivatives comprise:

	2015	2014
Net fair value change on economic hedges where no hedge accounting is applied	-686	3.392
Net fair value change on bifurcated embedded derivatives	300	-551
Ineffective portion of hedge transactions to which hedge accounting is applied	-5	-
Total	**-391**	**2.841**

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	7	-46
Fair value change on hedged items in fair value hedge	-12	46
Ineffectiveness fair value hedge	**-5**	**-**

The net fair value change on embedded derivatives includes the fair value movements of bifurcated embedded derivatives (minimum guarantees on unit-linked policies). The net fair value change on free standing derivatives includes the fair value movements of derivatives to hedge certain risks in these guarantees and the guarantees included in group contracts and traditional products.

Net fair value change on for account of policyholders financial assets at fair value through profit or loss

	2015	2014
Shares	-43	816
Debt securities and money market investments	-201	2.154
Total	**-244**	**2.970**

29. Policy holder claims and benefits

	2015	2014
Claims and benefits paid to policyholders	3.630	2.835
Change in valuation of liabilities for insurance and investment contracts	-989	8.786
Total	**2.641**	**11.622**

30. Profit sharing

	2015	2014
Surplus interest bonuses	1	1
Profit appropriated to policyholders	27	9
Total	**28**	**10**

31. Commissions and expenses

	2015	2014
Commissions	11	13
Employee expenses	58	61
Administration expenses	215	215
Deferred expenses	-13	-10
Amortization of deferred expenses	30	37
Amortization of VOBA	5	5
Total	**306**	**321**

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	32	31
Post-employment benefit costs	5	7
Social security charges	4	4
Other personnel costs	16	19
Total	**58**	**61**

Employees

Aegon Levensverzekering 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 Levensverzekering are recharged to Aegon Levensverzekering by Aegon Nederland N.V.

The assets and liabilities arising from employee benefits for staff working for Aegon Levensverzekering 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 Levensverzekering are a fixed percentage of the salaries charged to the entity.

Remuneration Executive Board

The members of the Executive Board of Aegon Levensverzekering 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 million.

	2015	2014
Current 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 N.V. 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 N.V. in 2015 58% (2014: 60%) was allocated to the income statement of Aegon Levensverzekering.

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 Levensverzekering 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 Levensverzekering 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 Levensverzekering’s independent public auditor during 2015 and audited these financial statements. The fees for services rendered to Aegon Levensverzekering 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.

32. Impairment charges / (reversals)

	2015	2014
Impairment charges comprise:		
Loans	6	1
Total	**6**	**1**
Reversals of impairment charges comprise:		
Loans	-	-
Total	**-**	**-**
Net impairment charges / (reversals)	**6**	**1**

33. Interest charges and related fees

	2015	2014
Borrowings	60	82
Short-term liabilities and deposits	-24	-14
Total	**36**	**67**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	36	67

34. Income tax

	2015	2014
Current tax		
- current year	148	68
- adjustments to prior year	-11	-
Deferred tax		
- origination / (reversal) of temporary differences	30	-6
- adjustment to prior year	11	-
Income tax for the period (income) / charge	**178**	**62**

The temporary differences relate mainly to real estate, financial assets and insurance contracts.

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

Reconciliation between standard and effective income tax:

	2015	2014
Income before tax	813	443
Income tax calculated using weighted average applicable statutory rates	203	111
Difference due to the effects of:		
- non-taxable income	-25	-49
Income tax for the period (income) / charge	**178**	**62**

	2015	2014
Items that will not be reclassified to profit and loss	**-**	**-**
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation of available-for-sale investments	70	474
Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments	-62	-39
Gains / losses on revaluation of investments in joint ventures	1	-
	9	**434**
Total income tax related to components of other comprehensive income	**9**	**434**

35. Fair value of assets and liabilities

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

35.1 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	1	-	66	67
- Debt securities	12.960	3.394	1.199	17.553
- Other	-	2	66	68
FVTPL investments				
- Shares	-	1.150	-	1.150
- Investments account policyholders	12.805	9.200	2.332	24.337
- Derivatives	29	6.819	46	6.894
- Investments in real estate	-	-	949	949
Total assets	**25.795**	**20.566**	**4.657**	**51.017**
Liabilities carried at fair value				
- Derivatives	2	6.075	1.425	7.502
Total liabilities	**2**	**6.075**	**1.425**	**7.502**

2014	Level I	Level II	Level III	Total 2015
Assets carried at fair value				
AFS investments				
- Shares	1	-	50	51
- Debt securities	13.360	3.567	1.170	18.096
- Other	28	-	111	139
FVTPL investments				
- Shares	1	365	-	366
- Investments account policyholders	14.916	9.603	2.051	26.570
- Derivatives	-	22.944	82	23.026
- Investments in real estate	-	-	917	917
Total assets	**28.306**	**36.478**	**4.380**	**69.165**
Liabilities carried at fair value				
- Derivatives	15	19.541	1.725	21.281
Total liabilities	**15**	**19.541**	**1.725**	**21.281**

Movements in Level III financial instruments measured at fair value

2015	1-1-2015	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	31-12-2015	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	50	-	16	-	-	-	66	-
- Debt securities	1.170	4	14	180	-154	-15	1.199	-
- Other	111	12	2	-	-59	-	66	-
FVTPL investments								
- Investments account policyholders	2.051	595	-	477	-725	-66	2.332	580
- Derivatives	82	-60	-	23	-	-	46	-60
- Investments in real estate	917	61		38	-67		949	61
Total assets	**4.380**	**612**	**32**	**718**	**-1.005**	**-81**	**4.658**	**520**
Liabilities carried at fair value								
- Derivatives	1.725	-300	-	-	-	-	1.425	-300
Total liabilities	**1.725**	**-300**	**-**	**-**	**-**	**-**	**1.425**	**-300**

2014	1-1-2015	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	31-12-2015	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	39	-	11	-	-	-	50	-
- Debt securities	1.016	19	-57	568	-278	-98	1.170	-
- Other	166	22	-13	31	-95	-	111	-
FVTPL investments								
- Investments account policyholders	1.842	75	37	743	-576	-71	2.051	71
- Derivatives	129	-47	-	-	-	-	82	-47
- Investments in real estate	905	6	-	114	-108	-	917	6
Total assets	**4.096**	**75**	**-22**	**1.456**	**-1.056**	**-169**	**4.380**	**24**
Liabilities carried at fair value								
- Derivatives	1.174	551	-	-	-	-	1.725	551
Total liabilities	**1.174**	**551**	**-**	**-**	**-**	**-**	**1.725**	**551**

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 Levensverzekering'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.

Regarding GA investments there were no significant transfers between Level I and Level II of the fair value hierarchy during 2015. In 2014, the inflation linked bonds are transferred from level II to level I, due to the liquidity and the underlying sovereign exposure of EUR 44.5 million.

During 2015, Aegon Levensverzekering transferred financial instruments with a value of EUR 6 million from Level II to Level III due to a change in the pricing source of some securities. There were no significant transfers from Level II to Level III of the fair value hierarchy during 2014.

During 2015, Aegon Levensverzekering transferred financial instruments with a value of EUR 21 million from Level III to Level II due to a change in the pricing source of some securities. During 2014, Aegon Levensverzekering transferred financial instruments (available-for-sale) with a value of EUR 98 million from Level III to Level II, because their value could be corroborated in 2014 in comparison to 2013.

In respect of the FVTPL investments for account of policyholders no securities were transferred from level II to level III. In total EUR 68 million was transferred from level III to level II, due to the fact that these (Structures) Credits could be corroborated based on market observable data, which was not possible in 2014.

In respect of the FVTPL investments for account of policyholders EUR 70 million was transferred from level II to level III, due to the fact that not all market observable data could be corroborated in respect to private loans in 2014.

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	66	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	1.199	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Derivatives	46	Discounted cash flow	Mortality	5%	5%
Investments in real estate	949	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**2.258**				
Liabilities carried at fair value					
Bifurcated embedded derivatives in insurance contracts	1.425	Discounted cash flow	Credit spread	0,30	0,30
Total liabilities at fair value	**1.425**				

2014	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	50	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	1.169	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Derivatives	82	Discounted cash flow	Mortality	5%	5%
Investments in real estate	917	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**2.218**				
Liabilities carried at fair value					
Bifurcated embedded derivatives in insurance contracts	1.725	Discounted cash flow	Credit spread	0.25	0.25
Total liabilities at fair value	**1.725**				

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

Investments for account of policyholders are excluded from the table above and from the disclosure regarding reasonably possible alternative assumptions. Policyholder assets, and their returns, belong to policyholders and do not impact the net income or equity of Aegon Levensverzekering. The effect on total assets is offset by the effect on total liabilities.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of the fair value of Level III instruments to changes in key assumptions, by class of instrument. The effect of an increase of a reasonable possible alternative assumption on the carrying amount is shown in the column ‘positive’ and a decrease in the column ‘negative’.

2015	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	46	Mortality	b	46	-28
Liabilities carried at fair value					
- Bifurcated embedded derivatives in insurance contracts	1.425	Credit spread	c	-40	42

2014	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	82	Mortality	b	14	-13
Liabilities carried at fair value					
- Bifurcated embedded derivatives in insurance contracts	1.725	Credit spread	c	50	-48

The table above presents the impact on a fair value measurement of a change in an unobservable input for financial instruments. The impact of changes in inputs may not be independent; therefore the descriptions provided below indicate the impact of a change in an input in isolation.

b. Some OTC derivatives are so-called longevity derivatives. The payout of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected payouts of the derivative plus a risk margin. The best estimate of expected payouts is determined using best estimate of mortality developments. Aegon determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. Depending on the duration of the longevity swaps either the projected mortality (+/- 5%) development or discount rate (+/- 100 bps) are the most significant unobservable inputs.

c. To determine the fair value of the bifurcated embedded derivatives related to guarantees, a discount rate is used including own credit spread. An increase in the own credit spread results in lower valuation, while a decrease results in a higher valuation of the embedded derivatives. Aegon Levensverzekering increased or decreased the own credit spread by 20 basis points.

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	15.113	17.569	-	-	17.569	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	1.967	2.197	-	6	2.191	Discounted cash flow	-
Policy loans	2	2	n.a.	n.a.	n.a.	n.a.	n.a.
Liabilities							
Investment contracts	239	241	-	-	241	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	16.518	19.111	-	-	19.111	Discounted cash flow	Liquidity premium; spreads for credit risk, expenses and prepayments, lapse assumptions
Private loans	1.246	1.552	-	6	1.546	Discounted cash flow	-
Policy loans	3	3	n.a.	n.a.	n.a.	n.a.	n.a.
Liabilities							
Investment contracts	249	273	-	-	273	Discounted cash flow	

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

35.1.1. *Shares*

When available, Aegon Levensverzekering 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.

35.1.2. *Real estate funds, private equity funds and hedge funds*

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers. Aegon Levensverzekering reviews the valuations each month and performs analytical procedures and trending analyses to ensure the fair values are appropriate.

35.1.3. *Debt securities*

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Levensverzekering uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Levensverzekering'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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering of the risk associated with each security. However, Aegon Levensverzekering does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon Levensverzekering's view of the risks associated with each security.

Aegon Levensverzekering'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 Levensverzekering's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and an 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 Levensverzekering'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 Levensverzekering uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Levensverzekering 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 Levensverzekering 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 Levensverzekering 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.

Corroboration

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 Levensverzekering 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.

35.1.4. Mortgage loans, policy loans and private loans

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

35.1.5. Real estate

Valuations of both investments in real estate and real estate held for own use are conducted in full by independent external appraisers at least every three years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the balance sheet date. Appraisals are different for each specific local market, but are based on market guidelines such as International Valuation Standards, Uniform Standards of Professional Appraisal Practice or guidelines issued by the Investment Property Databank. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the value that the property's net earning power will support, the value indicated by recent sales of comparable properties and the current cost of reproducing or replacing the property. Discount rates used in the valuation of real estate reflect the risk embedded in the projected cash flows for the asset being valued. Capitalization rates represent the income rate for a real estate property that reflects the relationship between a single year's net operating income expectancy and the total property price or value. For property held for own use, appraisers consider the present value of the future rental income cash flows that could be achieved had the real estate been let out.

35.1.6. 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.

35.1.7. 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 Levensverzekering 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 Levensverzekering normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[4] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Levensverzekering 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.

Some over-the-counter derivatives are so-called longevity derivatives. The payout of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected payouts of the derivative plus a risk margin. The best estimate of expected payouts is determined using best estimate of mortality developments. Aegon Levensverzekering determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. The most significant unobservable input for these derivatives is the (projected) mortality development.

35.1.8. *Embedded derivatives in insurance contracts including guarantees*

All bifurcated guarantees for minimum benefits in insurance contracts are carried at fair value. These relate mainly to minimum interest guarantees on insurance products.

Since the price of these guarantees is not quoted in any market, the fair values of these guarantees are based on discounted cash flows calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic models under a variety of market return scenarios. A variety of factors are considered including own credit spread, expected market rates of return, equity and interest rate volatility, correlations of market returns, discount rates and actuarial assumptions. The most significant unobservable factor is own credit spread. The own credit spread used in the valuations of embedded derivatives in insurance contracts is 0.30% for the year ended (2014: 0.25%).

The expected returns are based on risk-free rates. Aegon Levensverzekering added a premium to reflect the credit spread as required. The credit spread is set by using the Credit default swap (CDS) spreads of a reference portfolio of life insurance companies (including Aegon), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors).

[4] International Swaps and Derivatives Associations

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy.
See also note 19 ‘Guarantees in insurance contracts’.

35.1.9. Investment contracts

Investment contracts issued by Aegon Levensverzekering are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements).

Similar to embedded derivatives in insurance contracts, certain investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic or similar techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) swap rates and associated forward rates or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. Correlations of market returns for various underlying indices are based on observed market returns and their inter-relationships over a number of years preceding the valuation date. Current risk-free spot rates are used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

35.1.10. Other borrowings

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

36. 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	-	1.188	15	401
Investments for account of policyholders	-	24.337	-	26.570
Derivatives with positive values	6.891	3	23.026	-
Total financial assets at FVTPL	**6.891**	**25.527**	**23.041**	**26.970**

	2015		2014	
	Trading	Designated	Trading	Designated
Investment contracts	-	239	-	249
Liabilities for guarantees	-	5.015	-	5.747
Derivatives with negative values	6.031	1.471	19.506	1.775
Total financial liabilities at FVTPL	**6.031**	**6.725**	**19.506**	**7.771**

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	-686	50	3.392	2.421

<u>Investments for general account</u>
Aegon Levensverzekering manages certain portfolios on a total return basis which have been designated at fair value through profit or loss. This includes portfolios of investments in limited partnerships and limited liability companies (primarily hedge funds) for which the performance is assessed internally on a total return basis.

Investments for general account backing insurance and investment liabilities, that are carried at fair value with changes in the fair value recognized in the income statement, are designated at fair value through profit or loss. Aegon Levensverzekering elected to designate these investments at fair value through profit or loss, as classification of these financial assets as available-for-sale would result in accumulation of unrealized gains and losses in a revaluation reserve within equity whilst changes to the liability would be reflected in net income (accounting mismatch).

<u>Investments for account of policyholders</u>
Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer. Under the accounting policies of Aegon Levensverzekering these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement. To avoid an accounting mismatch the linked assets have been designated as at fair value through profit or loss.

In addition, the investments for account of policyholders include with profit assets, where an insurer manages these assets together with related liabilities on a fair value basis in accordance with a documented policy of asset and liability management. In accordance with Aegon Levensverzekering's accounting policies, these assets have been designated as at fair value through profit or loss.

<u>Investment contracts for account of policyholders</u>
With the exception of the financial liabilities with discretionary participating features that are not subject to the classification and measurement requirements for financial instruments, all investment contracts for account of policyholders that are carried at fair value or at the fair value of the linked assets are included in the table above.

<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.

No loans and receivables were designated at fair value through profit or loss.

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

37. Commitment and contingencies

37.1. Investments contracted

In the normal course of business, Aegon Levensverzekering 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
Real estate	2	5
Mortgage loans	40	50

37.2. Other commitments and contingencies

Guarantees given	2015	2014
Standby letters of credit	23	26

Aegon Levensverzekering 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 Levensverzekering 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.

37.3. Off-balance sheet assets

As part of its core activities, Aegon Levensverzekering enters into transactions and maintains relationships with institutional and private customers for a wide range of financial services. As consideration for these services, Aegon Levensverzekering receives fees related to the value of the assets, the investment result or the risk run in connection with the contract.

37.4. Litigations and proceedings

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

Certain of the products we sell are complex and involve significant investment risks that may be passed on to Aegon Levensverzekering´s customers. Aegon Levensverzekering has, from time to time, received claims from certain current and former customers, and groups representing customers, in respect of certain products. Aegon Levensverzekering has in the past agreed to make payments, in some cases substantial, or adjustments to policy terms to settle those claims or disputes as we believed appropriate.

In addition, the insurance industry has routinely been the subject of litigation, investigations, regulatory activity and challenges by various governmental and enforcement authorities and policyholder advocate groups concerning wide-ranging subjects such as transparency of disclosure - issues and the charges included in products, employment or third party relationships, adequacy of internal operational controls and processes, environmental matters, anti-competition, privacy, information security and intellectual property infringement.

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. There is a risk that Aegon Levensverzekering is not able to resolve some or all such matters in the manner that it expects. In certain instances, Aegon Levensverzekering subsidiaries modified business practices in response to such inquiries or the findings thereof. Regulators may seek fines or other monetary penalties or changes in the way Aegon Levensverzekering conducts its business.

Aegon Levensverzekering has defended and Aegon Levensverzekering intends to continue defending itself vigorously when Aegon Levensverzekering believes claims are without merit. Aegon Levensverzekering has also sought and intends to continue to seek to settle certain claims, including via policy modifications, in appropriate circumstances. Aegon Levensverzekering refers to the settlement Aegon Levensverzekering reached in 2009 with Stichting Verliespolis and Stichting Woekerpolis in The Netherlands, two major customer interest groups. In 2012, Aegon Levensverzekering accelerated certain product improvements that reduce future costs and that increase policy value for its customers with unit-linked insurance policies. With these measures, Aegon Levensverzekering committed to the 'best of class' principles of the Dutch Ministry of Finance for certain existing unit-linked products. These principles were the result of an industry-wide review by the Ministry of the various agreements reached between individual insurance companies and customer interest groups in relation to unit-linked insurance policies. The Ministry made a strong appeal to all industry participants to apply its principles. As a result of this acceleration.

In addition, Aegon Levensverzekering decided to reduce future policy costs for the large majority of its unit-linked portfolio. At the time of that acceleration, that decision was expected to decrease income before tax over the remaining duration of the policies.

While parties such as the Ombudsman Financiële Dienstverlening (the Netherlands financial services industry ombudsman) supported the arrangements reached with customer interest groups, the public debate over the adequacy generally of these and other arrangements, as well as discussions in the Dutch Parliament, continue and may lead to re-examination and adjustment of the settlements made. It is not yet possible to determine the direction or outcome of these matters, including what actions, if any, Aegon Levensverzekering may take in response thereto, due to commercial necessity or future rulings or, for example, at the instigation of regulatory authorities, or the impact that any such actions may have on Aegon Levensverzekering´s business, results of operations and financial position.

For example, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten or 'AFM') issued a request to the insurance industry to contact certain customers to determine whether unit-linked products sold in the past, actually perform as originally contemplated. Aegon Levensverzekering has actively responded to that request by contacting customers to assess the performance of these products in the context of the then current objectives of that customer and to solicit an informed decision by those customers whether or not to continue with, make changes to or terminate these products ('activeren van klanten'). This process is actively monitored by the AFM, including the percentage of customers contacted. Sanctions may be imposed if the AFM determines that an insurer did not conduct this process adequately as well as timely. The Dutch Parliament introduced specific legislation in this respect and closely monitors the process. Any changes in legislation, regulatory requirements or perceptions of commercial necessity may have a materially adverse effect on Aegon Levensverzekering's businesses, results of operations and financial condition.

In general, individual customers as well as policyholder advocate groups and their representatives, continue to focus on the level of fees and other charges included in products sold by the insurance industry (including Aegon Levensverzekering), as well as the transparency of disclosure regarding such fees and charges and other product features and risks.

In 2013, the Dutch Supreme Court denied Aegon Levensverzekering´s appeal from a ruling of the Court of Appeal with respect to a specific Aegon Levensverzekering unit-linked product, the "KoersPlan" product. Between 1989 and 1998, Aegon Levensverzekering issued, sold or advised on approximately 600,000 KoersPlan policies. In 2011, the Court of Appeal ruled that Aegon Levensverzekering should have more clearly informed its customers about the amount of premium which the company charged in relation to the death benefit embedded in those products. Prior to the ruling Aegon Levensverzekering had already taken steps to improve its communications with customers as well as adjusting the amounts charged to KoersPlan customers. As a result of the Dutch Supreme Court's denial of appeal, Aegon Levensverzekering compensated the approximately 35,000 holders of KoersPlan products who were plaintiffs in the litigation and took a charge of EUR 25 million in 2013 in connection therewith. In 2014, Aegon Levensverzekering announced that it would voluntarily compensate holders of KoersPlan products that were not plaintiffs in the litigation. The compensation amounts to the difference, if any, between the amount of premium charged by Aegon Levensverzekering for a comparable risk in a product providing only death benefit coverage over the same period, and the premium (if higher) actually charged by Aegon Levensverzekering in connection with the KoersPlan product. This voluntary product improvement was supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. This improvement was extended to all tontine saving plan products (Spaarkassen). However, another interest group, Stichting Woekerpolisproces, announced in 2014 that it expected in the future to file a claim in court against Aegon Levensverzekering, alleging that the compensation is too low and should be paid not only to all KoersPlan policyholders, but also to all holders of other products sold by Aegon Levensverzekering with a death benefit (and corresponding premium payment obligation). It is not yet possible to determine what actions, if any, Aegon Levensverzekering may take in connection with any such expectations, or demands or claims, due to commercial necessity or future rulings or, for example, at the instigation of regulatory authorities, or the impact that any such actions may have on Aegon Levensverzekering´s business, results of operations and financial position.

Aegon Levensverzekering expects this to remain an industry issue for the foreseeable future. In 2013, the Klachteninstituut Financiële Dienstverlening (KIFID), rendered an interim decision against another insurance company in The Netherlands. KIFID is an independent body that offers an alternative forum for customers to file complaints or claims over financial services. Its decisions may be appealed to the courts. In its interim decision, KIFID found that the consumer had not been adequately informed of the so-called initial costs embedded within its unit linked policy, nor of the leverage component thereof, and challenged the contractual basis for the charges. There are claims pending with KIFID filed by customers over Aegon Levensverzekering products and that arguably include similar allegations. If KIFID were to finally decide unfavorably and that decision were to be upheld by a court, there can be no assurances that ultimately the aggregate exposure to Aegon of such adverse decisions would not have a material adverse effect on Aegon's results of operations or financial position if the principles underlying any such decision were to be applied also to Aegon products.

In April 2015, the European Court of Justice ruled on preliminary questions raised in a court case pending before the District Court in Rotterdam against another insurance company in The Netherlands. The main preliminary question considered by the European Court of Justice was whether European law permits the application of information requirements based on general principles of Dutch law that potentially extend beyond information requirements as explicitly prescribed by local laws and regulations in force at the time the policy was written. The European Court ruled that member states may impose on insurers obligations of transparency of disclosure in addition to those existing under European law, provided that those additional obligations are sufficiently clear and concrete as well as known to an insurer in advance. The European Court has left it to the national court to decide in specific cases whether the obligations under Dutch law meet those principles. It is possible that a judgment, although it would address a question of legal principle only and would be rendered in a case against another insurer, may ultimately be used by plaintiffs against Aegon Levensverzekering or to support potential claims against Aegon Levensverzekering. Future claims based on emerging legal theories could have a material adverse effect on Aegon Levensverzekering's businesses, results of operations and financial condition.

Proceedings in which Aegon Levensverzekering is involved

In March 2014, consumer interest group Vereniging Woekerpolis.nl filed a claim against Aegon in court. The claim related to a range of unit-linked products that Aegon sold in the past, including products over which Aegon was involved in litigation in the past, like the KoersPlan product. While the number of products to which the claim may relate was reduced by the court in its interlocutory ruling of October 28, 2015, it still concerns the majority of Aegon's unit-linked portfolio. The claim challenges a variety of elements of these products, on multiple legal grounds, including allegations made in earlier court cases. There can be no assurance that the claim from Vereniging Woekerpolis.nl may not ultimately have a material adverse effect on Aegon's results of operations or financial position. These matters will be defended vigorously; however, at this time, due to the nature and the type of claims, it is not practicable for Aegon to quantify a range or maximum liability or the timing of the financial impact, if any. There can be no assurance that such claims may not have a material adverse effect on Aegon's results of operations or financial position.

37.5. Capital commitments

	2015	2014
Share of contingent liabilities incurred in relation to interests in joint ventures	27	18

The contingent liabilities above not shown in the statement of financial position relate to investment obligations entered into by Aegon Levensverzekering (for its share of approximately 50%) for real estate development project of Amvest (in real estate development projects).

In addition, Amvest itself (100%) has unconditional obligations and planned total investments in real estate of EUR 643 million at yearend 2015 (2014: EUR 707 million). Of this, an amount of EUR 120 million is considered to be an unconditional obligation (2014: EUR 92 million). There are also contingent payment obligations for the acquisition of lands at yearend 2015 for a total amount of EUR 15 million (2014: EUR 15 million). The timing of this contingent consideration is uncertain and will in particular be dependent on the status of realization of the various projects.

38. Transfers of financial assets

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

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

1. Transferred financial assets that are not derecognized in their entirety:
   a. Securities lending; whereby Aegon Levensverzekering legally (but not economically) transfers assets and receives cash and non-cash collateral. The transferred assets are not derecognized. The obligation to repay the cash collateral is recognized as a liability. The non-cash collateral is not recognized on the balance sheet, and
   b. Repurchase activities; whereby Aegon Levensverzekering receives cash for the transferred assets. The financial assets are legally (but not economically) transferred, but are not derecognized. The obligation to repay the cash received is recognized as a liability.
2. Transferred financial assets that are derecognized in their entirety and Aegon Levensverzekering does not have a continuing involvement (normal sale);
3. Transferred financial assets that are derecognized in their entirety, but where Aegon Levensverzekering has a continuing involvement:
   a. Securitizations whereby mortgage loans are transferred to a securitization vehicle which is not part of the Group and where Aegon Levensverzekering has a continuing involvement in the transferred assets.
4. Collateral accepted in the case of securities lending, reverse repurchase agreement and derivative transactions;
5. Collateral pledged in the case of (contingent) liabilities, repurchase agreements, securities borrowing and derivative transactions.

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

38.1. Transferred financial assets that have not been derecognized in their entirety

The following table reflects the carrying amount of financial assets that have been transferred to another party in such a way that part or all of the transferred financial assets do not qualify for derecognition. Furthermore, it reflects the carrying amounts of the associated liabilities.

2015	**Available-for-sale financial assets**		**Financial assets at fair value through profit or loss**	
	Shares	Debt securities	Shares / debt securities	Investments for account of policyholders
Carrying amount of assets	-	1.059	-	1.777
Carrying amount of associated liabilities (on balance)	-	-1.058	-	-671
Carrying amount of associated liabilities (off balance)	-	-	-	-1.160

2014	**Available-for-sale financial assets**		**Financial assets at fair value through profit or loss**	
	Shares	Debt securities	Shares / debt securities	Investments for account of policyholders
Carrying amount of assets	-	1.057	-	2.192
Carrying amount of associated liabilities (on balance)	-	-1.049	-	-787
Carrying amount of associated liabilities (off balance)	-	-	-	-1.475

In 2014 the carrying amount of associated liabilities off balance and the carrying amount of associated liabilities on balance have been reversed. This has been restated in the comparative figures in the table above.

38.2. Securities lending and repurchase activities

The table above includes financial assets that have been transferred to another party under securities lending and repurchase activities.

Aegon Levensverzekering retains substantially all risks and rewards of those transferred assets, this includes credit risk, settlement risk, country risk and market risk. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognized in the statement of financial position. Cash collateral is recorded on the statement of financial position as an asset and an offsetting liability is established for the same amount as Aegon Levensverzekering is obligated to return this amount upon termination of the lending arrangement. Cash collateral is usually invested in pre-designated high quality investments. The sum of cash and non-cash collateral is typically greater than the market value of the related securities loaned.

When transferring non-cash financial assets to another party under security lending and repurchase activities, the counterparty has the right to sell or repledge the full amount.

Aegon Levensverzekering can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Levensverzekering or its counterparty. Transactions requiring Aegon Levensverzekering 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. Refer to the credit risk section in note 4.4.4 'Credit risk' for details on collateral received for derivative transactions.

<u>Assets accepted</u>
Aegon Levensverzekering receives collateral related to securities lending, reverse repurchase activities and derivative transactions. Non-cash collateral is not recognized in the statement of financial position. To the extent that cash is paid for reverse repurchase agreements, a receivable is recognized for the corresponding amount.

The following table analyses the fair value of the assets received in relation to securities lending and reverse repurchase activities. These activities are conducted under terms that are usual and customary to standard securities lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

Securities lending	2015	2014
Carrying amount of transferred financial assets	1.777	2.192
Fair value of cash collateral received	-671	-787
Fair value of non-cash collateral received	-1.160	-1.475
Net exposure	**-55**	**-70**
Non-cash collateral that can be sold or repledged in the absence of default	1.160	1.636

Reverse repurchase agreements	2015	2014
Cash paid for reverse repurchase agreements	2.659	2.950
Fair value of non-cash collateral received	-2.659	-2.950
Net exposure	**-**	**-**
Non-cash collateral that can be sold or repledged in the absence of default	2.659	2.950

38.3. Transferred financial assets that are derecognized in their entirety, but where Aegon Levensverzekering has continuing involvement

Aegon Levensverzekering has no transferred financial assets that are derecognized in their entirety, but where it has continuing involvement as per year-end 2015 and 2014.

38.4. Assets pledged

Aegon Levensverzekering pledges assets that are on its statement of financial position against borrowings and repurchase transactions. In addition, in order to trade derivatives on the various exchanges, Aegon Levensverzekering posts margin as collateral. These transactions are conducted under terms that are usual and customary to standard long-term borrowing and derivative activities.

With respect to repurchase agreements where financial assets are sold cash collateral is received and a liability is recognized for the corresponding amount. This is a third party liability or an intercompany loan with Aegon N.V. Thus, Aegon Levensverzekering has a repayment obligation with respect to the cash collateral received. To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized.

The table below reflects the value of the assets that serve as collateral.

Assets pledged for repurchase agreements	2015	2014
Cash received	1.058	1.049
Pledged non-cash collateral	-1.059	-1.057
Net exposure	**-**	**-8**

As part of Aegon Levensverzekering’s mortgage loan funding program EUR 2.8 billion (2014: EUR 4.5 billion) have been pledged as security for notes issued (refer to note 21). In addition, in order to trade derivatives on the various exchanges, Aegon Levensverzekering posts margin as collateral.

39. 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 Levensverzekering 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 Levensverzekering 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 Levensverzekering to facilitate Aegon Levensverzekering'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 Levensverzekering or its counterparty. Transactions requiring Aegon Levensverzekering 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	6.848	**6.848**	6.076	664	**107**
At December 31	**6.848**	**6.848**	**6.076**	**664**	**107**

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	22.944	**22.944**	19.557	3.162	**226**
At December 31	**22.944**	**22.944**	**19.557**	**3.162**	**226**

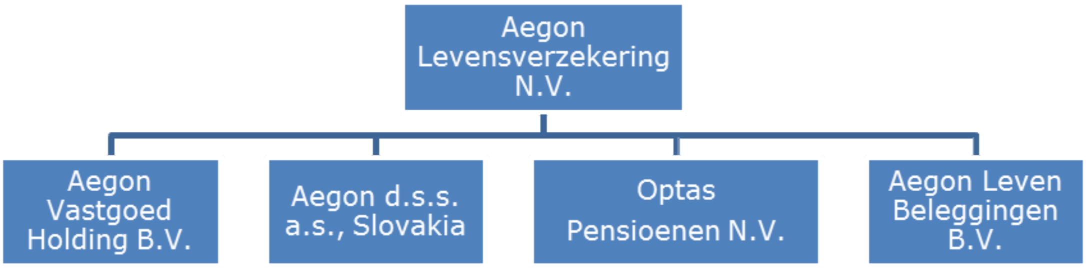
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

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	6.076	**6.076**	6.076	-	**-**
At December 31	**6.076**	**6.076**	**6.076**	-	**-**

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	19.557	**19.557**	19.557	-	**-**
At December 31	**19.557**	**19.557**	**19.557**	**-**	**-**

40. Group companies

The organization chart of Aegon Levensverzekering and its principal subsidiaries at year-end 2015 was as follows:



All companies are directly or indirectly wholly-owned, unless stated otherwise, and are involved in insurance or asset management or services related to these activities. Aegon Levensverzekering's voting power in these subsidiaries is equal to its shareholding.

The principal subsidiaries are:

- Aegon Vastgoed Holding B.V., The Hague
- Optas Pensioenen N.V., The Hague
- Aegon d.s.s. a.s., Slovakia
- Aegon Leven Beleggingen B.V., The Hague

Aegon Levensverzekering has issued a statement of liability pursuant to Section 403 of Book 2 of the Netherlands Civil Code for the following group companies:

- Aegon Core Fund Participations B.V.
- Aegon Dynamic Fund Participations B.V.
- Aegon Living & Care Fund Paricipations B.V.
- Aegon Leven Beleggingen B.V.
- Aegon Vast Goed III B.V.
- Aegon Vast Goed IV B.V.
- Aegon Vastgoed Holding B.V.
- Aegon Woningen B.V.
- AMVEST Home Free B.V.
- Vastgoedmaatschappij Inpa B.V.

The list of subsidiaries and associate required by Sections 379 and 414 of Book 2 of the Netherlands Civil Code has been registered with the Trade Register in The Hague.

40.1. Investments in associates and joint ventures

<u>Associates</u>

- N.V. Levensverzekering-Maatschappij 'De Hoop', The Hague (33,3%).

<u>Joint ventures</u>

- AMVEST Vastgoed B.V., Utrecht (50%), property management and real estate
- AMVEST Residential Core Fund I en II, (39,92%), real estate

- AMVEST Residential Dynamic Fund, (50%), real estate
- AMVEST Living & Care Fund (50%), real estate

AMVEST Vastgoed B.V. is the fund manager of the funds.

The other major participant in the joint venture, Stichting Pensioenfonds Zorg en Welzijn in Zeist, has equal interests in the entities mentioned above.

40.2. Investments in structured entities

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

- SAECURE 9 B.V.
- SAECURE 10 B.V.
- SAECURE 12 B.V.

The following structured entities have been called at FORD in 2015 and are liquidated:

- SAECURE 7 B.V.
- SAECURE 11 B.V.

In addition, during the first quarter of 2016, SAECURE 9 B.V. and SAECURE 10 B.V. have been called at FORD and were consequently liquidated.

41. 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.

Optas Pensioenen, a subsidiary of Aegon Levensverzekering, granted a loan of EUR 850 million to Aegon Nederland in 2007 for an indefinite period at an interest rate of 6%. The accrued interest on the intercompany loan at December 31, 2015 was EUR 51 million (2014: EUR 51 million).

Aegon Levensverzekering had uncommitted financing arrangements with Aegon Hypotheken, a group company of the parent Aegon Nederland. As at December 31, 2015 Aegon Levensverzekering lent EUR 970 million to Aegon Hypotheken (2014: EUR 1,010 million); with a floating interest rate based on the Euribor. In 2015, an interest income of EUR 0.7 million was recognized in the income statement in 2015 (2014: EUR 1.8 million).

Optas Pensioenen, a subsidiary of Aegon Levensverzekering, had committed financing arrangements for EUR 250 million (2014: EUR 250 million) with Aegon Hypotheken in 2015. No calls were made on these committed internal facilities during 2014 and 2015. Optas Pensioenen received a commitment fee for this of EUR 0.4 million from Aegon Hypotheken (2014: EUR 0.4 million).

In 2015, Aegon Levensverzekering bought a portfolio of mortgage loans from Aegon Hypotheken for an amount of EUR 152 million (2014: EUR 730 million). On the other hand, Aegon Levensverzekeringen sold a portfolio of mortgage loans to Aegon Hypotheken for an amount of EUR 384 million (2014: EUR 524 million). These sales generated a result of EUR 47.2 million (2014: EUR 81.3 million).

Aegon Levensverzekering bought a portfolio of mortgage loans from Aegon Bank for an amount of EUR 37 million in 2015 (2014: EUR 584 million). On the other hand, Aegon Levensverzekeringen sold a portfolio of mortgage loans to Aegon Bank for an amount of EUR 304 million (2014: EUR 534 million). These sales generated a result of EUR 2 million (2014: EUR 4 million).

In 2007 Aegon Levensverzekering received a subordinated loan from Aegon Nederland of EUR 600 million for an indefinite period. The loan has a term of notice of five year. The subordination is to other creditors. The interest rate is 6%. The accrued interest on the intercompany loan at December 31, 2015 was EUR 36 million (2014: EUR 36 million).

All transactions with group companies pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. At the end of the year, Aegon Levensverzekering had a current account receivable to Aegon Nederland of EUR 303 million (2014: EUR 1,944). EUR 17 million of interest income (2014: EUR 13 million) on the intercompany current account were recognized in the income statement. Furthermore Aegon Levensverzekering had intercompany loans (payable and receivable) with group companies. We refer to the separate notes.

In 2013, Aegon Spaarkas acquired a portfolio of mortgage loans from Aegon Levensverzekering of EUR 70 million. Aegon Levensverzekering remains servicing this portfolio, for which Aegon Spaarkas paid EUR 0.1 million of servicing fees during 2015 (2014: EUR 0.1 million).

Aegon Nederland employs the staff that carries out work for Aegon Levensverzekering and its subsidiaries; the related expenses are recharged to Aegon Levensverzekering. Furthermore Aegon Nederland provides Aegon Levensverzekering with administrative support and facilities at cost. Overhead expenses of EUR 222 million (2014: EUR 224 million) were recharged. Aegon Spaarkas and Aegon Financiële Diensten B.V. were provided with administrative support and facilities at cost by Aegon Levensverzekering. Total recharged income were EUR 3 million (2014: EUR 5 million).

Aegon Nederland, Aegon Schadeverzekering and Aegon Spaarkas have entered into short term loans with Aegon Levensverzekering of EUR 4 million (2014: short term deposits EUR 52 million). No interest income was recognized on the income statement regarding these deposits.

Aegon Levensverzekering has lent bonds to Aegon N.V. The market value of the bonds was nil at year end (2014: EUR 30 million). No collateral was received (2014: EUR 26 million).

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 31 million (2014: EUR 32 million). The investment portfolio amounted to 45,142 million (2014: EUR 46,467 million). Optas Pensioenen also received a management fee of EUR 3.2 million (2014: EUR 2.7 million)

The mortgages held by the entities in the Aegon N.V. group are managed and administered by Aegon Levensverzekering. The recharge for these services was EUR 17 million (2014: EUR 13 million).

Aegon Levensverzekering received EUR 5 million from its parent Aegon Nederland for the rental of the Aegon offices in The Hague (2014: EUR 5 million). In the consolidated income statement, this rental income is recognized under 'Investment income', see note 26.

Aegon Levensverzekering participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Levensverzekering uses to mitigate interest rate risk are concluded with Aegon Derivatives N.V. Aegon Levensverzekering has received cash collateral on derivative positions via Aegon Derivatives N.V. for an amount of EUR 664 million (2014: EUR 3,147 million). See also note 8 'Derivatives'. For intercompany balances with Aegon Derivatives B.V. see note 21.3 'Intercompany loans'. Net fair value change on these derivative transactions amount to EUR -/- 679 million (2014: EUR +/+ 3,347 million). The derivatives had a debit position of EUR 817 million (2014: debit EUR 3,470 million).

Aegon Levensverzekering without the joint venture Amvest Vastgoed and Optas Pensioenen, is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax grouping as if it were an autonomous taxpayer. Aegon Levensverzekering is jointly and severally liable for all tax liabilities of the entire tax group. It also uses the tax expertise of Aegon N.V.

Aegon Levensverzekering offers its products to employees of Aegon Nederland. The conditions for these products are the same for key management personnel and other staff.

Aegon Nederland has a defined benefit pension plan for its employees which is administered by Aegon Levensverzekering. The premium paid to Aegon Levensverzekering was EUR 46 million (2014: EUR 41 million).

The premium income from the production of Aegon PPI related to Aegon Levensverzekering was EUR 8.8 million in 2015 (2014: EUR 5.2 million).

In January 2012, Aegon Levensverzekering entered into an indemnity swap with an external pension fund. With this swap Aegon Levensverzekering took over the longevity risk of this pension fund by paying benefits as long as the participants live and receive fixed payments from the external pension fund. The longevity risk of this contract is fully reinsured by Blue Square Re, a 100% owned subsidiary of Aegon N.V. The premium income of this contract amounts to EUR 0.4 million annually and the contract has a maximum duration of 40 years. This reinsurance agreement is unwound in 2015.

In respect to a longevity transaction with Blue Square Re, a 100% subsidiary of Aegon N.V., Aegon Levensverzekering provided a loan to Blue Square Re of EUR 3 million at year end 2015 (2014: debt to Blue Square Re of EUR 1 million).

In December 2013, Aegon Levensverzekering entered into a longevity reinsurance contract with Blue Square Re, a 100% owned subsidiary of Aegon N.V. The contract reinsures a specified portfolio of insurance contracts against possible future mortality improvements. The size of the underlying portfolio is EUR 1,040 million. Blue Square Re will pay benefits as long as the participants live and receive fixed payments from Aegon Levensverzekering. At year end of the year, EUR 25 million is recognized as deferred cost of reinsurance with regard to this reinsurance contract, which will be amortized over the duration of the underlying insurance contracts.

Aegon N.V. granted a loan regarding foreign exchange transactions to Aegon Levensverzekering. This loan totals EUR 2 million in 2015 (2014: EUR 25.8 million). Interest charges of EUR 0.1 million are recognized in the income statement (2014: interest income of EUR 0.6).

42. Events after the balance sheet date

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

The Hague, April 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

Financial statements 2015 of Aegon Levensverzekering N.V.

Report of the Executive Board

See page 7 of the annual report for the Report of the Executive Board.

Statement of financial position

(before profit appropriation)

	Note	31-12-2015	31-12-2014*	1-1-2014*
Amounts in EUR million				
Assets				
Intangible assets				1
Investments	3	31.873	31.780	27.152
Investments for account of policyholders	4	23.630	25.860	22.759
Derivatives	5	6.400	21.223	10.695
Shares in group companies	6	6.939	6.622	6.454
Investments in associates	7	19	19	18
Deferred tax assets*	18	37	73	484
Group loans	8	736	800	546
Reinsurance assets	9	11	12	14
Deferred expenses	10	96	114	141
Other assets and receivables	11	633	653	211
Cash and cash equivalents	12	4.321	5.614	727
Total assets		**74.695**	**92.770**	**69.202**
Equity and liabilities				
Equity	13			
- Share capital		23	23	23
- Share premium		305	305	305
- Revaluation reserves		1.108	1.080	-35
- Other legal reserves		-	298	245
- Retained earnings		3.025	2.339	1.900
- Net income / (loss)		635	381	491
Total equity		**5.096**	**4.426**	**2.929**
Insurance contracts	14	28.571	28.002	22.115
Insurance contracts for account of policyholders	15	25.121	27.443	24.369
Investment contracts	16	239	249	259
Derivatives	5	6.849	19.428	9.344
Long-term borrowings and group loans	17	4.637	8.738	7.611
Provisions		4	4	4
Other liabilities and accruals	19	4.178	4.480	2.570
Total liabilities		**69.599**	**88.344**	**66.273**
Total equity and liabilities		**74.695**	**92.770**	**69.202**

*Amounts for December 31, 2014 and January 1, 2014 have been restated for an error, refer to note 2.1.2 of the consolidated financial statements.

Income statement

	For the year ended December 31	
Amounts in EUR million	2015	2014*
Net income / (loss) group companies	311	211
Other income / (loss) after tax	324	170
Net income / (loss)	**635**	**381**

*Amounts for the year 2014 have been restated for an error, refer to note 2.1.2 of the consolidated financial statements.

Notes to the financial statements

1. General information

Aegon Levensverzekering N.V., incorporated and domiciled in the Netherlands, is a limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Aegonplein 50, 2591 TV The Hague. Aegon Levensverzekering N.V. is a 100% subsidiary of Aegon Nederland N.V. in The Hague. Aegon N.V. in The Hague is the ultimate parent of the group.

Aegon Levensverzekering and its subsidiaries are active in life insurance and pensions operations, savings and investment products, mortgages and pension administration.

2. Summary of significant accounting policies

2.1. Basis of preparation

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

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

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

2.2. Prior year error

Amounts for the year 2014 have been restated due to an error in the 2014 financial statements. As the impact of the prior year error is the same for both the consolidated and company financial statements, the impact is shown only for the consolidated financial statements. We refer to note 2.1.2 of the Consolidated financial statements for a detailed impact analysis.

2.3. Group companies

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

2.4. Equity

In addition to the notes in the consolidated financial statements it is reported that revaluation reserves include legal reserves in respect of group companies. Net increases in net asset value of the subsidiaries are accounted for in the revaluation reserves since their first inclusion, less any amounts that can be distributed without legal restrictions.

3. Investments

	31-12-2015	31-12-2014
Available-for-sale financial assets (AFS)	14.998	14.975
Loans (amortized cost)	15.778	16.445
Financial assets at fair value through profit or loss (FVTPL)	999	265
Total financial assets, excluding derivatives	**31.775**	**31.685**
Investments in real estate	98	95
Total investments	**31.873**	**31.780**
Investments in investment funds		
Total investments for general account	**31.873**	**31.780**

2015	Shares	Real estate	Debt securities	Mortgage loans	Private loans	Other financial assets	Total
At January 1	315	95	14.786	15.122	1.197	265	31.780
Acquisitions	750	3	2.118	327	724	39	3.961
Disposals	-15		-1.628	-1.590	-102	-99	-3.434
Revaluation	16		-370	47		14	-293
Amortized			-43	-73	1		-115
Realized in the income statement				6		-32	-26
At December 31	**1.066**	**98**	**14.863**	**13.839**	**1.820**	**187**	**31.873**

2014	Shares	Real estate	Debt securities	Mortgage loans	Private loans	Other financial assets	Total
At January 1	270	95	10.174	15.407	881	325	27.152
Acquisitions	271		4.842	505	358	43	6.018
Disposals	-239		-2.659	-801	-42	-103	-3.845
Revaluation	11		2.447	8		8	2.474
Amortized	-		-22	-90			-112
Realized in the income statement	2		4	85		-7	85
Impairment losses / (reversals)	-		-	8			8
At December 31	**315**	**95**	**14.786**	**15.122**	**1.197**	**265**	**31.780**

3.1. Financial assets (excluding derivatives)

2015	AFS	Loans	FVTPL	Total	Fair value
Shares	66		1.000	1.066	1.066
Debt securities	14.863			14.863	14.863
Mortgage loans		13.839		13.839	16.161
Private loans		1.819		1.819	2.041
Policy loans		2		2	2
Other	68	117		185	185
At December 31	**14.997**	**15.777**	**1.000**	**31.774**	**34.318**

2014	AFS	Loans	FVTPL	Total	Fair value
Shares	50	-	265	315	315
Debt securities	14.786	-	-	14.786	14.786
Mortgage loans	-	15.122	-	15.122	17.577
Private loans	-	1.197	-	1.197	1.493
Policy loans	-	3	-	3	3
Other	25	122	-	147	147
At December 31	**14.860**	**16.445**	**265**	**31.570**	**34.321**

	31-12-2015	31-12-2014
Current	2.534	1.210
Non-current	29.241	30.360
Total financial assets, excluding derivatives	**31.775**	**31.570**

4. Investments for account of policy holders

	31-12-2015	31-12-2014
Shares	6.739	7.605
Debt securities	12.434	14.393
Other	4.457	3.862
	23.630	**25.860**

5. Derivatives

	Derivative asset		Derivative liability	
	31-12-2015	31-12-2014	31-12-2015	31-12-2014
Derivatives not designated in a hedge	6.400	21.223	6.841	19.420
Derivatives designated as cash flow hedges				
Derivatives designated as fair value hedges		-	8	8
Total	**6.400**	**21.223**	**6.849**	**19.428**

Derivatives not designated in a hedge – general account

	Derivative asset		Derivative liability	
	31-12-2015	31-12-2014	31-12-2015	31-12-2014
Derivatives held as an economic hedge	6.400	21.223	5.500	17.796
Bifurcated embedded derivatives		-	1.340	1.623
Total	**6.400**	**21.223**	**6.840**	**19.420**

6. Shares in group companies

	2015	2014
At January 1	6.623	6.454
Net income / (loss) for the financial year	311	211
Dividends received		-1
Revaluations	5	-42
Other		-
At December 31	**6.939**	**6.622**

7. Investments in associates

These assets are considered to be non-current and relate to the investment in N.V. Levensverzekering-Maatschappij 'De Hoop' for 33,3%.

8. Group loans

	2015	2014
Loan Aegon Hypotheken B.V.	700	800
Other intercompany loans	36	-
At December 31	**736**	**800**
current	734	800
non-current	2	-
Total	**736**	**800**

Refer to note 9 of the consolidated financial statements for more information.

9. Reinsurance assets

Refer to note 12 'Reinsurance assets' of the consolidated financial statements for more information.

10. Deferred expenses

Refer to note 13 'Deferred expenses' of the consolidated financial statements for more information.

11. Other assets and receivables

	Note	31-12-2015	31-12-2014
Receivables	11.1	251	270
Accrued income	11.2	382	383
Total		**633**	**653**

11.1. Receivables

	31-12-2015	31-12-2014
Receivables from reinsurers	4	3
Investment debtors	13	2
Receivables from policyholders	135	217
Income tax receivable	1	1
Other	109	56
Provision for doubtful debts	-11	-9
Total	**251**	**270**
Current	227	236
Non-current	24	34
Total	**251**	**270**

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

11.2. Accrued income

	2015	2014
Accrued interest	372	375
Prepaid expenses	10	9
At December 31	**382**	**383**

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

12. Cash and cash equivalents

	31-12-2015	31-12-2014
Cash at bank and in hand	217	26
Short-term deposits	1.636	2.776
Money market investments	2.468	2.812
Total	**4.321**	**5.614**

The cash items are not subject to restrictions.

13. Equity

	2015	2014
Share capital	23	23
Share premium	305	305
Revaluation reserves	1.108	1.080
Other legal reserves	-	298
Retained earnings	3.025	2.339
Net income / (loss)	635	381
At December 31	**5.096**	**4.426**

Comparable figures have been restated, we refer to note 2.1.2 of the Consolidated financial statements for a detailed impact analysis.

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.

On January 13, 2015, the court granted the request to release the restriction on the reserves that were held in relation to Optas Pensioenen N.V. Therefore at year-end 2015 legal reserves are nil (2014: EUR 298 million).

Refer to note 16 'Equity' of the consolidated financial statements for more information on equity.

13.1. Share capital

	2015	2014
Authorized share capital	100	100
Not issued	77	77
At December 31	**23**	**23**

The authorized share capital is EUR 100 million, divided into 100,000 shares of EUR 1,000 nominal value each, of which 22.690 shares have been issued and fully paid. There have been no changes in share capital since the previous financial year. In 2015 Aegon Levensverzekering paid no dividend (2014: nil) to Aegon Nederland N.V.

13.2. Share premium

	2015	2014
At January 1	305	305
At December 31	**305**	**305**

13.3. Statement of changes in equity

2015	Share capital	Share premium	Revaluation reserves	Other legal reserves	Retained earnings	Net income / (loss)	Total
At January 1	**23**	**305**	**1.080**	**298**	**2.339**	**381**	**4.426**
Net income prior year retained	-	-	-	-	381	-381	**-**
Net income current year	-	-	-	-	-	635	**635**
Total net income / (loss)	**-**	**-**	**-**	**-**	**381**	**254**	**635**
Changes revaluation subsidiaries	-	-	6	-	-	-	**6**
Changes revaluation reserves	-	-	22	-	-	-	**22**
Changes statutory reserve OPTAS	-	-	-	-298	298	-	**-**
Other	-	-	-	-	-	-	**-**
Other comprehensive income / (loss)	**-**	**-**	**28**	**-298**	**298**	**-**	**28**
Dividend common shares	-	-	-	-	7	-	**7**
Equity changes from relation with shareholder	**-**	**-**	**-**	**-**	**7**	**-**	**7**
At December 31	**23**	**305**	**1.108**	**-**	**3.025**	**635**	**5.096**

2014	Share capital	Share premium	Revaluation reserves	Other legal reserves	Retained earnings	Net income / (loss)	Total
At January 1	**23**	**305**	**-35**	**245**	**1.900**	**491**	**2.929**
Net income prior year retained	-	-	-	-	491	-491	**-**
Net income current year	-	-	-	-	-	381	**381**
Total net income / (loss)	**-**	**-**	**-**	**-**	**491**	**-110**	**381**
Changes revaluation subsidiaries	-	-	-42	-	-	-	**-42**
Changes revaluation reserves	-	-	1.157	-	-	-	**1.157**
Changes statutory reserve OPTAS	-	-	-	53	-53	-	**-**
Other	-	-	-	-	1	-	**1**
Other comprehensive income / (loss)	**-**	**-**	**1.115**	**53**	**-52**	**-**	**1.116**
Dividend common shares	-	-	-	-	-	-	**-**
Equity changes from relation with shareholder	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At December 31	**23**	**305**	**1.080**	**298**	**2.339**	**381**	**4.426**

14. Insurance contracts

	2015	2014
At January 1	28.002	22.116
Gross premiums	1.146	2.789
Unwind of discount / interest credited	834	773
Insurance liabilities released	-1.658	-1.465
Changes in valuation of expected future benefits	-1.233	3.341
Portfolio transfers and acquisitions	-14	191
Expense loadings released	-81	-88
Net exchange differences	1	4
Movement unamortized interest rate contracts	514	294
Other	1.060	47
At December 31	**28.571**	**28.002**

Refer to note 17 of the consolidated financial statements for information on the insurance contracts.

15. Insurance contracts for account of policyholders

	2015	2014
At January 1	27.443	24.369
Gross premiums	1.040	1.085
Unwind of discount / interest credited	637	1.895
Change in unit linked account value	139	613
Insurance liabilities released	-1.942	-1.324
Changes in valuation of expected future benefits	-1.076	1.195
Portfolio transfers and acquisitions	80	-202
Expense loadings released	-140	-140
Other	-1.060	-47
At December 31	**25.121**	**27.443**

16. Investment contracts

Refer to note 20 of the consolidated financial statements for information on the investment contracts.

17. Long-term borrowings and group loans

	31-12-2015	31-12-2014
Debentures and other loans	2.765	4.953
Subordinated loan with Aegon Nederland	600	600
Loan Aegon Derivatives N.V.	753	3.107
Loan Aegon Hypotheken B.V.	485	-
Other intercompany loans	34	79
Total	**4.637**	**8.739**
Current	2.547	4.748
Non-current	2.090	3.990
	4.637	**8.738**

Refer to note 21 of the consolidated financial statements for more information.

18. Deferred tax

2015	Real estate	Financial assets	Insurance contracts	Def. expenses VOBA and intang. assets	Total
At January 1	-9	704	-780	12	-73
Charged to income statement	1	-29	195	-2	165
Charged to equity	-	-129	-	-	-129
At December 31	**-8**	**546**	**-585**	**10**	**-37**

2014	Real estate	Financial assets	Insurance contracts	Def. expenses VOBA and intang. assets	Total
At January 1	-10	162	-651	14	-484
Charged to income statement	-	-37	-129	-2	-168
Charged to equity	-	579	-	-	579
At December 31	**-9**	**704**	**-780**	**12**	**-73**

19. Other liabilities and accruals

	Note	31-12-2015	31-12-2014
Other liabilities	19.1	4.121	4.439
Accruals	19.2	57	41
Total		**4.178**	**4.480**

19.1. Other liabilities

	31-12-2015	31-12-2014
Payables due to policyholders	353	801
Payables out of reinsurance	74	71
Investment creditors	77	412
Social security and taxes payable	34	28
Current account with Aegon Nederland N.V.	2.470	2.004
Repurchase agreements	1.058	1.049
Other creditors	55	72
Total	**4.121**	**4.439**
Current	3.303	4.366
Non-current	818	73
	4.121	**4.439**

20. Premium income

Recurring premiums	2015 (x eur 1000)			2014 (x eur 1000)		
	Total			Total		
	Gross	Reinsurance	General Account	Gross	Reinsurance	General Account
Without profitsharing	387.000	2.000	385.000	415.177	1.722	413.455
With profitsharing	24.000	0	24.000	27.616	0	27.616
Life	**411.000**	**2.000**	**409.000**	**442.794**	**1.722**	**441.072**
Without profitsharing	183.000	300	182.700	133.435	390	133.045
With profitsharing	647.000	3.000	644.000	801.067	2.245	798.822
Pensions	**830.000**	**3.300**	**826.700**	**934.502**	**2.635**	**931.867**
Total recurring premiums	**1.241.000**	**5.300**	**1.235.700**	**1.377.295**	**4.357**	**1.372.938**

Single premiums	2015 (x eur 1000)			2014 (x eur 1000)		
	Total			Total		
	Gross	Reinsurance	General Account	Gross	Reinsurance	General Account
Without profitsharing	29.000	0	29.000	27.993	0	27.993
With profitsharing	211.000	0	211.000	242.591	0	242.591
Life	**240.000**	**0**	**240.000**	**270.584**	**0**	**270.584**
Without profitsharing	235.000	0	235.000	1.765.598	0	1.765.598
With profitsharing	471.000	0	471.000	464.355	0	464.355
Pensions	**706.000**	**0**	**706.000**	**2.229.953**	**0**	**2.229.953**
Total single premiums	**946.000**	**0**	**946.000**	**2.500.537**	**0**	**2.500.537**

Total direct business	**2.187.000**	**5.300**	**2.181.700**	**3.877.833**	**4.357**	**3.873.475**
Total indirect business	0	0	0	-3.423	0	-3.423
Total	**2.187.000**	**5.300**	**2.181.700**	**3.874.410**	**4.357**	**3.870.052**

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

21. Related party transactions

The following transactions within the Aegon N.V. group are of significance from the perspective of the separate financial statements of Aegon Levensverzekering.

Aegon Levensverzekering had uncommitted financing arrangements with Aegon Hypotheken, a group company of the parent Aegon Nederland. As at December 31, 2015 Aegon Levensverzekering lent EUR 700 million to Aegon Hypotheken (2014: EUR 800 million); with a floating interest rate based on the Euribor. In 2015, an interest income of EUR 0.2 million was recognized in the income statement in 2015 (2014: EUR 1 million).

All transactions with group companies pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. At the end of the year, Aegon Levensverzekering had a current account payable to Aegon Nederland of EUR 2,469 million (2014: EUR 1,944). EUR 54 million of interest charges (2014: EUR 21 million) on the intercompany current account were recognized in the income statement. Furthermore Aegon Levensverzekering had intercompany loans (payable and receivable) with group companies. We refer to the separate notes.

Optas Pensioenen, Aegon Spaarkas and Aegon Financiële Diensten B.V. were provided with administrative support and facilities at cost by Aegon Levensverzekering. Total recharged income were EUR 9 million (2014: EUR 11 million).

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 23 million (2014: EUR 24 million). The investment portfolio amounted to 41,447 million (2014: EUR 42,298 million).

The mortgages held by the entities in the Aegon N.V. group are managed and administered by Aegon Levensverzekering. The recharge for these services was EUR 19 million (2014: EUR 16 million).

Aegon Levensverzekering participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Levensverzekering uses to mitigate interest rate risk are concluded with Aegon Derivatives N.V. Aegon Levensverzekering has received cash collateral on derivative positions via Aegon Derivatives N.V. for an amount of EUR 753 million (2014: EUR 3,107 million). See also note 8 ‘Derivatives’. For intercompany balances with Aegon Derivatives B.V. see note 21.3 ‘Intercompany loans’. Net fair value change on these derivative transactions amount to EUR -/- 622 million (2014: EUR +/+ 3,031 million). The derivatives had a credit position of EUR 892 million (2014: debit EUR 3,418 million).

Aegon Leven Beleggingen N.V. has granted a loan to Aegon Levensverzekering of EUR 2.4 million.

Aegon Levensverzekering receives interest on mortgages from customers, which are transferred to Saecure 7. The recharge amounts to EUR 23.4 million (2014: EUR 43 million). Aegon Levensverzekering receives a fee for servicing the mortgages of EUR 7 thousand (2014: EUR 12 thousand). The amounts not paid to external noteholders are recharged from Saecure 7 to Aegon Levensverzekering. The amount recharged was EUR 14.8 million (2014: 27.2 million).

Aegon Levensverzekering receives interest on mortgages from customers, which are transferred to Saecure 9. The recharge amounts to EUR 30.8 million (2014: EUR 33.5 million). Aegon Levensverzekering receives a fee for servicing the mortgages of EUR 12 thousand (2014: EUR 12 thousand). The amounts not paid to external noteholders are recharged from Saecure 9 to Aegon Levensverzekering. The amount recharged was EUR 22.3 million (2014: 22.9 million).

Aegon Levensverzekering receives interest on mortgages from customers, which are transferred to Saecure 10. The recharge amounts to EUR 60.5 million (2014: EUR 65.1 million). Aegon Levensverzekering receives a fee for servicing the mortgages of EUR 12 thousand (2014: EUR 12 thousand). The amounts not paid to external noteholders are recharged from Saecure 10 to Aegon Levensverzekering. The amount recharged was EUR 44.7 million (2014: 45.2 million).

Aegon Levensverzekering receives interest on mortgages from customers, which are transferred to Saecure 11. The recharge amounts to EUR 15 million (2014: EUR 32 million). Aegon Levensverzekering receives a fee for servicing the mortgages of EUR 583 thousand (2014: EUR 961 thousand). The amounts not paid to external noteholders are recharged from Saecure 11 to Aegon Levensverzekering. The amount recharged was EUR 8.1 million (2014: 20.5 million).

Aegon Levensverzekering receives interest on mortgages from customers, which are transferred to Saecure 12. The recharge amounts to EUR 55.7 million (2014: EUR 59 million). Aegon Levensverzekering receives a fee for servicing the mortgages of EUR 1,853 thousand (2014: EUR 1,951 thousand). The amounts not paid to external noteholders are recharged from Saecure 12 to Aegon Levensverzekering. The amount recharged was EUR 41.5 million (2014: 41.6 million).

Aegon Levensverzekering receives interest on mortgages from customers, which are transferred to Saecure 14. The recharge amounts to EUR 26.9 million (2014: EUR 22.5 million). Aegon Levensverzekering receives a fee for servicing the mortgages of EUR 916 thousand (2014: EUR 969 thousand). The amounts not paid to external noteholders are recharged from Saecure 14 to Aegon Levensverzekering. The amount recharged was EUR 22.4 million (2014: 17.5 million).

Refer to note 41 of the consolidated financial statements for more information on the related party transactions.

22. Remuneration Executive and Supervisory Board

Refer to note 31 of the consolidated financial statements for information on the remuneration of the Executive and Supervisory Board.

23. Remuneration Independent Auditor

Refer to note 31 of the consolidated financial statements for information on the remuneration of the independent Auditor.

24. Commitments and contingencies

Refer to note 37 of the consolidated financial statements for more information.

25. Events after the balance sheet date

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

The Hague, April 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

Statutory provisions regarding profit appropriation

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

1. Of the profit as determined by adaption of the financial statements as much is retained as the Annual General Meeting shall determine.
2. A portion of the profit after allocation to the reserves as determined in Section 1, is allocated to policyholders who are entitled to a share in the annual profit, The remaining profit is at the disposal of the Annual General Meeting.
3. Distribution of profit shall take place after adoption of the financial statements which show this to be permissible.
4. The General Meeting of Shareholders may resolve to make interim distributions and/or distributions charged to a reserve of the company.
5. Distributions on shares may only take place up to the amount of the distributable shareholders' equity.
6. The Annual General Meeting may decide to an interim distribution, if the requirements are met as evidenced by an interim statement of net assets pursuant to Section 2:105(4) of the Netherlands Civil Code.

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 634 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 Levensverzekering N.V.

Report on the financial statements 2015

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Aegon Levensverzekering N.V. and its subsidiaries ('the Group') as at 31 December 2015 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Aegon Levensverzekering N.V. as at 31 December 2015 and of its results for the year then ended in accordance 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 Levensverzekering N.V., seated in The Hague, the Netherlands ('the company'). The financial statements include the consolidated financial statements of Aegon Levensverzekering N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

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

The company financial statements comprise:

- the statement of financial position as at 31 December 2015;
- the income statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

Ref.: e0377164

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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 for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

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 Levensverzekering 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.

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 such as assets and liabilities arising from insurance contracts and the fair value of certain assets and liabilities that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the 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 ensured that the audit team included the appropriate skills and competencies which are needed for the audit of a diverse financial institution. Accordingly, our audit team included industry expertise in life insurance and asset management, as well as specialists including actuaries, IT auditors, treasury, tax and valuation specialists.

Materiality
- Overall materiality is set at €54 million. 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 Levensverzekering N.V.
- We have audited all regulated insurance entities, including the centralized investment and real estate operations within the Aegon Levensverzekering N.V.

Key audit matters
- Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculations.
- Fair value of 'hard to value' financial instruments.
- Uncertainties in policyholder claims and litigation.
- Restatement as result of a prior period error.

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 group materiality	€54 million (2014: €53 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. This analysis has been based on applying 2.0% of equity, less revaluation reserves. This resulted in an overall materiality of approximately €69 million (2014: €57 million). The materiality allocated to the company, as agreed with the auditor of the (ultimate) parent company, Aegon N.V., amounts to €54 million. The lowest of the calculated and allocated overall materiality is used when planning and executing our audit.

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. The allocated materiality to the company agreed with its (ultimate) parent company Aegon N.V. reflects its shareholders perspective on the financial performance of the company's operations, is based on profit before tax and is also used for group reporting purposes.

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 €3.2 million (2014: €2.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Aegon Levensverzekering N.V. is the parent company of a group of entities that are active in life insurance and pension operations, savings and investment products, mortgages and pension administration. The financial information of this group is included in the consolidated financial statements of Aegon Levensverzekering N.V.

The group's accounting process is structured around a centralized finance function within the Aegon Nederland Group that supports the various operations of Aegon Levensverzekering N.V. and its subsidiaries. The finance function maintains all accounting records and controls and reports to senior management and the executive board of Aegon Levensverzekering N.V. through an integrated consolidation and reporting system. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by our audit team at each of the business line units that form part of the company's group structure.

In our view, due to their significance and/or risk characteristics, all regulated insurance entities within the Aegon Levensverzekering N.V. group as disclosed in Note 40 of the consolidated financial statements, required a full scope audit of their financial information. For all these regulated entities the group engagement team performed that work.

We make use of other audit firms for certain assets or operations which are managed by parties not fully controlled by Aegon Levensverzekering N.V. This relates for example to the company's holdings in real estate managed by Amvest Vastgoed. We determine the level of involvement we need to have in the audit work for those assets and operations to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the company's financial statements as a whole.

By performing the procedures above we have obtained sufficient and appropriate audit evidence regarding the financial information of the group to provide a basis for our opinion on the consolidated financial statements.

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.

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:

- An additional key audit matter is included relating to the restatement as a result of a prior year error.
- We have no longer included a key audit matter on the transition as auditors including audit of opening balances and changes in accounting policies.
- 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 and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculations;
  - fair value of 'hard to value' financial instruments;
  - uncertainties in policyholder claims and litigation.

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 and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation. *Refer to Note 2.17 'Summary of significant accounting policies-insurance contracts', Note 17 'Insurance contracts' and Note 18 'Insurance contracts for account of policyholders'.* The company has significant insurance contract liabilities stated at €58 billion at 31 December 2015 representing 74% of the company's total liabilities, which mostly relates to the Life and Pension products.	We used our own actuarial specialists to assist us in performing our audit procedures. In particular, our audit focused on the models considered more complex and/or requiring significant judgement in the setting of assumptions such as the corporate pension guarantees. We assessed 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 actuarial analyses including estimated versus actual results and experience studies.

Key audit matter	*How our audit addressed the matter*
This is an area that involves significant judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term insurance liabilities and relevant guarantees provided to policyholders, and therefore we considered it a key audit matter for our audit. Consistent with the insurance industry, the company uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design or application of the models. Economic assumptions such as investment returns and interest rates and actuarial assumptions such as mortality, longevity, morbidity, expenses and customer behaviour are key inputs used to estimate these long-term insurance liabilities. Significant judgement is applied in setting these assumptions. During 2015, the company continued a multi-year review of their actuarial models focusing first on those considered high risk. This model update in combination with the company's actuarial and economic assumptions update resulted in certain charges being recorded for the year as explained in Note 3 'Critical accounting estimates and judgment in applying accounting policies'.	For the assumption setting process, we assessed the experience analyses performed by the company in their assumption setting processes. Our assessments included challenging, as necessary, specified economic and actuarial assumptions, including longevity, expenses and lapses, considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences. We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. Furthermore, we performed audit procedures to determine the models and systems were calculating the insurance contract liabilities accurately and completely. We tested the validity of management's liability adequacy testing which is a key test performed to check that the liabilities as well as the recovery of the balances for deferred acquisition costs and value of business acquired 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, expected market developments, trends and specific product features. We also assessed the adequacy of the disclosures in Note 17 and Note 18 of the financial statements in relation to insurance contract liabilities.
Fair value of 'hard to value' financial instruments *Refer to Note 2.6 'Summary of significant accounting policies-investments' and Note 35 'Fair value of assets and liabilities".* The company's investment portfolio, including net derivatives, totalling €61 billion, represents 78% of the company's total assets. Quoted prices from liquid market sources can be obtained for a large portion of the portfolio.	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.

Key audit matter	How our audit addressed the matter
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 35 'Fair value of assets and liabilities'. 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, direct and indirect investments in real estate, mortgage loans, asset backed securities; hedge funds, private equity funds and other alternative investments; and unlisted equity and debt securities.	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 disclosures in the consolidated financial statements in relation to valuation of investments are compliant with the relevant accounting requirements.
Uncertainties in policyholder claims and litigation *Refer to Note 37 'Commitment and contingencies'* The insurance industry is seeing ongoing consumer activism and regulatory scrutiny over product design and selling practices. The company has encountered claims and litigation in this respect. Depending on the actual legal position and expectations from management, claims, including litigation related, are either provided for as a liability or reflected as contingent liabilities in the notes to the financial statements. The company uses external legal experts where applicable to evaluate its legal positions. Given the uncertainty and judgement in this area we determined this as a key audit matter.	We gained an understanding of the policyholders' claims and litigations through discussions with management, including general legal counsel, review of minutes of board meetings and by reviewing the accounts for legal expenses. We have read the internal position papers prepared by the company. We also obtained lawyers' letters to the extent considered necessary for our audit. For all (potentially) material claims we tested the underlying facts and circumstances considered relevant for the legal advisors to come to their assessments and assessed the best estimate of outflows as determined by the company. We also assessed the completeness and adequacy of the related disclosures to determine they were in accordance with EU-IFRS.
Restatement as result of a prior period error *Refer to 2.1.2 'Prior period errors'* During 2015, after completion and filing of the company's statutory financial statements, the company has noted that certain investments were erroneously excluded in determining the guarantee provision as at 31 December 2014.	We have assessed management's analysis of the root cause of the error in the guarantee provision, the financial impact and the implications from a financial reporting and internal controls perspective.

Key audit matter	How our audit addressed the matter
This resulted in an overstatement of the guarantee provision by €246 million and an understatement of the 2014 net result by €134 million and the total Aegon Levensverzekering N.V. group equity by €184 million. As a result of this error, the company performed a comprehensive root cause analysis. It was concluded this error was an incident in nature, as it related to a non-recurring change of the investment fund structure. Based on this analysis the company made further improvements in the calculation process and the internal controls going forward. Management concluded that the error, although material under the definition of IAS 8, is not a fundamental error as defined by Part 9 of Book 2 of the Dutch Civil Code, as the impact on the most important ratios (e.g. solvency), relevant to the main stakeholders, are within acceptable limits. In accordance with the applicable accounting standards this error has been retrospectively adjusted in the 2015 financial statements. Given the magnitude of the resulting adjustment, we consider this a key audit matter.	For our 2015 audit we have expanded our procedures with respect to data quality, the use of models and the calculations relating to the guarantee provision, both from a control and a substantive perspective. In addition, we have performed substantive audit procedures on the calculations made by management and the related journal entries to correct the error, as well as the related financial statement disclosures. This matter was extensively discussed with the company's Risk and Audit Committee, including our audit response and responsibilities. We concur with management's view that the identified error should lead to a retrospective adjustment of the prior year's result and financial position.

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 Levensverzekering N.V. and its subsidiaries 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 Levensverzekering 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.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

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.