Annual report 2017

Aegon Nederland N.V.

Aegon Nederland N.V.
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Contents

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Report of the Board of Directors

1. General information

Aegon Nederland N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland N.V. (‘Aegon Nederland’) is wholly owned by Aegon Europe Holding B.V. (‘Aegon Europe Holding’) in The Hague. Aegon N.V. in The Hague is the ultimate parent of the group.

1.1. Purpose and mission statement

Aegon Nederland has customers at the core of its strategy. At the end of 2016, Aegon Nederland introduced the Future Fit Strategy. The goal of the Future Fit Strategy is to become the “customer-driven company of the future”. The refocused strategy centers around Aegon Nederland’s mission to “enable people to make conscious decisions about their financial future” (“wij stellen mensen in staat zelf, bewust keuzes te maken voor hun financiële toekomst”). This means doing the right things in the best possible way in the interests of our customers. In 2017, Aegon Nederland started the implementation of the Future Fit Strategy, thereby transforming Aegon Nederland’s company structure into four divisions, with an increased focus on customer segments: Aegon Zakelijk, Aegon Particulier, Knab and Bank & Beleggen. Within these divisions, Aegon Nederland aims to offer comprehensive value propositions that will suit our customers’ needs at every stage of their lives. Our strategy is aligned across four set objectives, to create loyal customers, achieve operational excellence, realize an optimized portfolio and have empowered employees.

1.2. Main activities, products, services and geographic areas

Aegon Nederland is incorporated and domiciled in the Netherlands, and its subsidiaries offer life insurance, pensions, savings and investment products, mortgages, accident and health insurance, general insurance, banking, asset management, pension administration and intermediary activities. Aegon Nederland operates from The Hague, Leeuwarden, Groningen and Hoofddorp.

Sales and distribution
Aegon Netherland's Life & Savings products are sold through Aegon's intermediary and direct channels. Aegon Nederland offers its non-life insurance products primarily through direct and intermediary channels. In addition, sales and account management provides products for larger corporations in the Netherlands. Most of Aegon Nederland's pensions are sold through sales and account management and Aegon's intermediary channel. Customers include individuals, company and industry pension funds, and small, medium and large corporations. Aegon Nederland is one of the country's leading pension provider.

For the majority of company and industry customers, Aegon Nederland provides a full range of pension products and services. In addition, TKP Pensioen specializes in pension administration for company and industry pension funds, and also provides defined contribution plans to corporate and institutional clients. Aegon offers defined contribution plans for small and medium-sized companies, and CAPPITAL offers the same plans for large companies. In 2016, TKP and Aegon Nederland launched STAP general pension fund. Aegon was the first company to receive approval from the Dutch Central Bank to launch a general pension fund.

STAP is a pension pooling vehicle that enables separate financial administration for multiple pension plans from multiple employers. This vehicle enables smaller pension schemes to benefit from economies of scale and to comply with complex pension regulations, meaning that a greater percentage of the employees' pension premium is invested and that employers and participants can count on excellent service. The fund is administered by TKP, an Aegon subsidiary responsible for administering the pensions of over 3 million customers in the Netherlands. STAP also allows individual schemes to benefit from the investment expertise normally only available to larger pension funds. The fiduciary investments for STAP will be carried out by TKP Investments, a subsidiary of Aegon Asset Management, which is a solution for pension funds that no longer wish to continue independently due to the current high legal requirements and costs. STAP is also a potential solution for companies looking to set up a pension plan in a pension fund environment.

1.3. Legal company and group structure

Aegon Nederland is a public limited liability company organized under Dutch law, which is a wholly-owned subsidiary of Aegon Europe Holding, The Hague. Aegon N.V., which is a listed entity, is the ultimate parent company of Aegon Nederland. Within the group of companies of Aegon Nederland, there are four wholly-owned and licensed insurance companies and one licensed mortgage company: Aegon Levensverzekering N.V. ('Aegon Levensverzekering'), Aegon Schadeverzekering N.V. ('Aegon Schadeverzekering'), Optas Pensioenen N.V. ('Optas Pensioenen'), Aegon Spaarkas N.V. ('Aegon Spaarkas') and Aegon Hypotheken B.V. ('Aegon Hypotheken'). Other licensed companies with 100% ownership relations are Aegon Bank N.V. ('Aegon Bank') (including the banking activities of the Knab label), Aegon PPI B.V. ('Aegon PPI') and Cappital PPI B.V. ('Cappital PPI'). The intermediary and advice business encompasses the wholly-owned and licensed Aegon Bemiddeling B.V. ('Aegon Bemiddeling') and Aegon Advies B.V. ('Aegon advice') companies. Finally, in the pension administration business, TKP Pensioen B.V. ('TKP Pensioen') is part of the Aegon Nederland group of companies. On October 31, 2017 Aegon Nederland sold its shares in the independent financial advisory group Unirobe Meeùs Groep (UMG).

On January 1, 2017 as a consequence of the legal merger between Aegon Nederland (as acquiring company) and Aegon Bedrijfsfinanciering B.V., Aegon Infrastructure Services Nederland and Bagon B.V. (as disappearing companies), the disappearing companies ceased to exist.

On January 1, 2017 as a consequence of the legal merger between eyeOpen Holding (as acquiring company) and eyeOpen Finance B.V. (as disappearing company) the disappearing company ceased to exist.

On January 2, 2017, all the shares in the capital of eyeOpen N.V. were sold and transferred by eyeOpen Holding N.V. to Aegon Innovation Investments B.V..

On January 3, 2017 as a consequence of the legal merger between eyeOpen (as acquiring company) and eyeOpen Holding (as disappearing company) the disappearing company ceased to exist.

On January 3, 2017, the Articles of Association of eyeOpen N.V. were amended, whereby the name changed into Knab Advies & Bemiddeling N.V..

On June 27, 2017 as a consequence of the merger between Aegon Vastgoed Holding B.V. (as acquiring company) and Aegon Woningen B.V., Aegon Living & Care Fund Participation B.V. and Aegon Dynamic Fund the disappearing ceased to exist on June 28, 2017.

On June 27, 2017 as a consequence of the merger between Aegon Vastgoed Holding B.V. (as acquiring company) and Aegon Core Fund Participations B.V. (as disappearing company) the disappearing company ceased to exist on June 28, 2017.

On June 29, 2017 as a consequence of the merger between Aegon Levensverzekering (as acquiring company) and Aegon Leven Beleggingen B.V. and Aegon Vastgoed Holding B.V. (as disappearing companies) the disappearing companies ceased to exist on June 30, 2017.

On October 31, 2017 Aegon Nederland N.V. sold all the shares in Unirobe Meeùs Groep B.V..

1.4. Internal organizational structure

Aegon Nederland operates in an ever changing environment due to customer and stakeholder demands, as well as market developments. By providing clear information ("Klantbelang Centraal" or Customer Centricity) and easily comprehensible products and services, Aegon Nederland empowers people to make better financial decisions. Over the last few years, Aegon Nederland's strategy has been enhanced and refined. Changes to the strategy have been made to reflect developments inside as well as outside of the company. We have consistently proven ourselves to be adaptable to environmental changes by transforming our business, further strengthening our capital base and reducing costs. We are well prepared to meet the rapidly changing demands of (aging) populations in an increasingly affluent world. During the course of 2016, Aegon Nederland's Board of Directors deemed it necessary to accelerate the execution of the strategy.

In order to achieve this acceleration, changes to our organization and governance structure were required; further transforming the organization from being product-driven towards being customer-driven. By doing so, the organizational structure is now more aligned to our business strategy and consequently, a more efficient and effective execution of our strategy can be expected. The organization is now divided in four customer segments Retail, Wholesale, Knab and Aegon Bank en Beleggen.

The following entities are organized within the Retail segment: Aegon Schadeverzekering, Aegon Levensverzekering (individual life), Aegon Spaarkas, Aegon Advies, Aegon Bemiddeling and Aegon Hypotheken.

The entities Optas Pensioenen, Aegon Schadeverzekering (income) and Aegon Levensverzekering (pensions) are organized within the Wholesale segment.

1.5. Employees

The average number of employees is 4,113, including 161 agents (2016: 4,500, including 264 agents). The expected developments in the total employees depends on the company's strategic choices made. On October 31, 2017 Aegon Nederland sold its shares in UMG. This resulted in a decrease of employees and agents. On a short-term horizon, the number of employees is expected to remain stable. Meantime, Aegon Nederland is actively looking into options to further reduce costs.

1.6. Key elements of policy

During 2017, the Board of Directors' meetings have raised several important subjects and developments for discussion, such as:

- Further improvement of the control environment and culture (“In Control”)
- Follow-up of the independent external auditor management letter and board report
- Financial results (Solvency II & IFRS)
  - Capitalization considerations
  - ALM: strategic asset allocation
- Own Risk Solvency Assessment (ORSA)
- SOx developments
- Redesign of the organizational structure for the execution of the Aegon NL Future Fit strategy
- HR related subjects, e.g. a health check for the Aegon NL organizations as well as a Global Employee Survey
- Budget and Mid-term planning (BMTP)
- Determination and monitoring of the project portfolio budget
- Monitoring the customer Net Promoter Score (NPS)
- Optimizing synergy between the different participants in the pension landscape within Aegon NL.
- Proposition innovation; service providing, fee business, growth of Knab, set up of an independent APF (‘Algemeen Pensioen Fonds’)
- Macroeconomics and market developments

1.7. Composition of the Board of Directors and gender diversity

As of January 1, 2017 Mr. M.B.A. Keim resigned from the Board as chair and was appointed in an international position within Aegon Group. On 1 January 2017, Mr. M.J.P. Edixhoven was appointed in the position of the chair within the Board of Directors. On January 1, 2017 also Mr. W. Horstmann was appointed as a member of the Board of Directors in the function of Chief Risk Officer. As of May 1, 2017 Mrs. I.M.A. de Graaf-de Swart succeeded Mr. R.M. van der Tol as member of the Board of Directors and chairman of the Business Line Retail and Mr. Van der Tol resigned.

As a result, as of May 1, 2017, the Board consists of Mr. M.J. Edixhoven (chair), Mr. R. Zomer, Mrs. I.M.A. de Graaf-de Swart, Mr. W.A. Hekstra and Mr. W. Horstmann.

Enhancing gender diversity in the Board of Directors and Supervisory Board is an important objective for Aegon Nederland. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into consideration in light of its goal to have a balanced composition in the Board of Directors. The Supervisory Board is aware that the current composition does not meet the 'balanced composition' requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men). When identifying candidates for open positions, the Board actively searches for suitable female candidates with the help of external recruitment firms. In 2017 an important step has been taken with the appointment of Mrs. I.M.A. de Graaf-de Swart as one of the five members of Board of Directors.

1.8. Remuneration policy

Aegon Nederland pursues a careful, sound and sustainable remuneration policy. As Aegon Nederland has adopted the Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid as issued by DNB), the Aegon Nederland remuneration policy is in line with the requirements stipulated in the regulation.

Aegon Nederland's remuneration policy applies to the Board of Directors, management teams, senior management and other employees of Aegon Nederland and complies with the applicable national and international regulations. 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 maximum variable remuneration for the statutory board members of Aegon Nederland N.V. and its subsidiaries that qualify as a bank or insurer is 20% of the fixed income and in 2017 was in total at target at 13.3% of the fixed income. In line with the Law on Remuneration Policies for Financial Institutions (Wet beloningsbeleid financiële ondernemingen, or 'Wbfo'), that has been in effect since February, 2015, the total variable remuneration of senior management (including members of the statutory board) does not exceed 20% of fixed income for the whole of Aegon Nederland. The total amount of variable compensation paid out in 2017 was EUR 2.5 million. In 2017, there were no individuals for which the total annual compensation paid out to was equal to or higher than EUR 1 million.

Regarding the form and timing of payments, the regulation requires a portion of the variable remuneration paid to Identified Staff (e.g. members of the Management Team and certain senior managers) to be deferred and partially paid in shares.

Variable remuneration is based on performance relating to present targets on the following three levels: (i) Aegon N.V., (ii) Aegon Nederland 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 upon assessment of the actual performance.

Under the governance provisions of Aegon Nederland's remuneration policy, the Supervisory Board is authorized, following the results of an ex-post assessment, to suspend or cancel all or a part of the variable remuneration granted conditionally to Identified Staff ('malus clause'). This malus clause on variable remuneration granted conditionally to Identified Staff was not applied in 2017.

The governance provisions in Aegon Nederland's remuneration policy state that the Supervisory Board is authorized to recover variable remuneration previously paid 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 2017, there was no claw back of variable remuneration.

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 Board of Directors, (iv) review of the remuneration of Identified Staff, (v) instructing the Board of Directors 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 covered.

The remuneration policy and its implementation was discussed in meetings held by the Supervisory Board on several occasions during 2017. The Supervisory Board also discussed the level of variable remuneration. As of 2016, the so-called bonus pool has been established and applied for the performance year 2017. The Supervisory Board approved the 2017 variable remuneration targets for Identified Staff within the framework set out in the AGGRF. It also approved payment of the variable remuneration to Identified Staff relating to prior years that vested in 2017, with due regard to the assessments required under the AGGRF. This remuneration was within Aegon Nederland's remuneration policy. No retention payments were made. There were no welcome and exit arrangements granted in 2017 outside of the policy.

The total income of members of the Management Team is regularly assessed against the compensation package for similar positions in other financial companies in the Netherlands. When setting the remuneration policy for the Board of Directors, the aim is for total compensation levels to be slightly below the median of comparable positions in the market. The total income of the Board of Directors is in line with the remuneration policy.

Application of policy
In 2017, there were no dismissals in the Management Team. Variable remuneration for the Management Team and other Identified Staff were paid 50% in cash and 50% in shares of Aegon N.V. In 2017, in accordance with Aegon Nederland's Remuneration policy, 40% of the 2016 variable remuneration was paid directly to members of the Board of Directors of Aegon Nederland 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 reasons for lowering the amounts or not pay at all.

With the exception of shares withheld to cover payment of any applicable taxes, social security premiums and/or other possible deductions by the government (for which the company holds a withholding obligation in connection with the vesting of the shares), an additional holding period of three years applies to shares that have vested for the CEO and two years for the other members of the Board of Directors of Aegon Nederland.

1.9. Regulation and supervision

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The aim of the Wft is to embed the cross-sectorial functional approach within the Dutch supervisory system. This approach replaced the prior sectorial approach to financial supervision, which was embedded in the previous legislation. The supervision of financial institutions pursuant to the Wft rests with the Dutch Central Bank ('DNB') and the Authority for the Financial Markets ('AFM').

DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions, and the conduct of business on financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank ('ECB').

The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to customers.

1.10. Business developments

Aegon Levensverzekering and Optas Pensioenen

Business Line Wholesale (Zakelijk) uses two risk carriers with a licence (*Wft Leven-vergunning*) for its group pension. These are Aegon Levensverzekering N.V. and Optas Pensioenen N.V. With a few exceptions, the business developments and strategy of Aegon Levensverzekering N.V. is the same as the strategy of Optas Pensioenen N.V. are in line when it comes to group pension and everything else resulting from that.

Aegon Levensverzekering N.V. will not accept new group DC-plans. New DC plans are placed in the two PPI's of Aegon, which are part of the business line wholesale (Zakelijk). Despite the decreasing popularity, Aegon Levensverzekering N.V. is still prepared for new insured DB schemes. In addition, indexations of pensions, and the increase in salaries and the number of employees, lead to substantial organic growth in this portfolio. Nevertheless, more and more employers with a DB-plan opt for a different pension provider within Aegon on termination of their group pension contract with Aegon Levensverzekering N.V., for example at one of the PPIs. In 2017 Aegon Levensverzekering started transferring the administration of insured DC policies to Aegon's subsidiary TKP in Groningen. This transition takes place in phases and will be completed in 2019. Together with the administrations of Aegon PPI and Cappital PPI, all DC schemes of Aegon Netherlands are then administered on the same platform at TKP.

Optas will not, or only exceptionally, accept new group pension business. Optas Pensioenen NV has in fact become a service book. Therefore the paragraphs on business developments and strategy are alike. The portfolio shrinks because employers increasingly opt for a different pension provider within Aegon on termination of their group pension contract with Optas, for example at one of the PPIs, or go outside of Aegon.

In the coalition agreement (*regeerakkoord*) of the new cabinet much attention is paid to a new pension system. The most important points here are:

- the abolition of the average pay system
- Introduction of a flat premium with decreasing pension accumulation
- Personal pension assets and more freedom of choice
- The possibility that self-employed people can join voluntarily.

The aim is to have agreement with the social partners in early 2018 on the further details.

Optas Pensioenen and Aegon Levensverzekering are still doing well in the market of immediate annuities. In a very competitive market, they aim for quality over price and have continued their pricing discipline, thus achieving a positive gross Value of New Business (VNB).

In September 2016 a new law for variable annuities entered into force. This law introduces for a participant in a defined contribution scheme an additional option (a variable annuity) at the start of the decumulation phase. When you choose for a variable annuity the amount of your pension depends on:

- How your investments will perform;
- The increase or decrease in interest rates;
- How much longevity has risen (or decreased).

In November 2016 Aegon was the first pension insurance company that this product (Uitkerend Beleggingspensioen) had available for its customers. In 2017, 20% of participants that bought an annuity with their pension capital out of a DC plan, chose for a variable annuity.

Due to the same law for variable annuities, participants in DC plans must already be offered the choice during the accrual phase whether they want to choose for a fixed or variable annuity from the retirement date so that, if necessary the life cycles can be adjusted accordingly.

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) in 2017. Another trend that Optas Pensioenen and Aegon Levensverzekering must anticipate, is the differentiation in pricing for mortality and disability risks based on risk profiles.

Aegon Levensverzekering

Life (individual)
The year 2017 showed a continued decline in the market for endowment products and a further decrease in our in-force Whole-Life portfolio. Hardly any new business was generated in this market segment. The trend towards bank-savings products continued unaltered. The active markets for more traditional products such as Term-Life insurances, have shown to be stable over recent years. Within the Term-Life market, Aegon Levensverzekering achieved significant growth in 2017, both in the top and bottom segments. In addition we expect the trend of retreating government to offer additional opportunities for our life protection proposition. Working closely with Aegon Nederland’s banking business, Aegon Levensverzekering offers customers integrated solutions wherever possible. The decreasing portfolio requires stringent control of costs which should diminish or at least be kept at the same level. In 2017 the decrease in costs was in line with the decrease in the in-force portfolio.

Aegon Levensverzekering manages their existing life portfolio as efficiently as possible and is optimizing their portfolio from both the customer’s and Aegon’s perspective. 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 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 2017, almost 200,000 existing clients were actively approached (activated and informed) to make a decision about their product. Finally, with the online financial check, Aegon Levensverzekering is also helping customers to evaluate whether their Aegon products still meet their needs and and personal situation.

Aegon Spaarkas

This portfolio of this entity, which sold a specific kind of unit-linked products, has been closed for a few years already. Hence, no new products are introduced by Aegon Spaarkas. Similar to the Life portfolio this portfolio is steadily decreasing in size. Aegon Spaarkas manages this portfolio as efficiently as possible and optimizes it from the customers’ and several Aegon’s perspectives. Important for this objective is the financial check, which helps customers understand their financial health. This financial check has been executed over the last few years in line with AFM requirements. As per 2018 all customers have been “activated” and a new Aegon approach has been developed. See also the Koersplan and unit-linked products sections in this report.

Aegon Schadeverzekering

Consumer P&C (Property & Casualty)
In 2017, the trends (changing consumer behavior, development of online direct, focus on risk and control) of recent years in the non-life insurance market further developed. The profitability of the non-life consumer insurance market is still under pressure from high competition. Still we saw a clear improvement of the results during 2017. We have taken the step from structurally loss-making to an in-control insurer with a healthy loss ratio. Based on in-depth insight, we have taken strong and sometimes difficult measures to improve the results of our portfolio. We rationalized our portfolio, phased out legacy systems, developed and refined our pricing and products, reorganized and sharped our distribution strategy.

We have achieved a substantial return improvement and have improved our starting position considerably. The focus for the coming years is on achieving growth / scale (decrease costs per policy and more data) and the use of smart technology ("advanced analytics"). Both are conditional for a sustainable and competitive business model. Furthermore we remain our strong focus of being “in control".

Income (Accident & Health) market
Aegon Schadeverzekering continued to develop its model for the Income market called 'de Gezonde Aanpak' (‘the Healthy Approach'). This to further improve our support to employers (SME’s) and entrepreneurs in dealing with absenteeism and disability in the best possible way and to reduce the number and volume of claims. In the Income market, Aegon Schadeverzekering invested in the online presence of individual AOV (disability-insurance).

Due to measures introduced by the government, cancellations of WGA/ERD insurances increased in the market segment of small- and medium-sized enterprises. Our WGA/ERD product was redesigned to changes in regulations on January 1, 2018. By January 1, 2018, when employers also become responsible for the disability risk for workers on temporary contracts, our customers are making a choice between the UWV and the private market for the coming three years. This resulted in an overall higher production, especially in the market segment of large enterprises. Finally, cost efficiency and the optimization of the chain from customer to provider are important drivers in the non-life market and will become even more important in the years to come.

Aegon Hypotheken B.V.

In 2017, the mortgage production in the Netherlands increased 25% to over EUR 100 billion (2016: EUR 85 billion), reaching to pre-crisis levels. The low mortgage rates and increased consumer confidence are important factors explaining the strong recovery. Lower supply, higher house prices and stricter lending conditions may constraint further growth of the mortgage market.

In 2017 the largest growth was realized from refinancing (37%) and by home owners moving to a new property (25%). The group of starters in the market showed a relative weak growth of 6% indicating that higher house prices and shortage of supply of suitable houses hinder potential entrants. The total number of mortgages sold also increased significantly, by 15% to 315,000. This growth is lower than the growth in volume due to an increase in the average mortgage amount to EUR 286.000 (2016: EUR 264,000).

In 2017 house prices have risen at an annual rate of 8.2%. In the development of housing prices there are clear differences between different housing types and regions with popular urban areas showing stronger increases than rural areas. However, the increase in house prices is more wide-spread over the country. In certain, urban areas there is shortage in cheaper and middle class residences.

No significant changes in the top 10 lenders in the Dutch mortgage market. The top 4 remains Rabobank, ABN Amro, ING and Aegon; the Aegon market share increased compared to 2016 with 1.3% to 8.5%.

Aegon Bank

The year 2017 has proven to be successful for Aegon Bank N.V. The strategy continues to focus on serving our customers optimally and making Aegon Bank more operationally and financially robust. Aegon Bank continued to further implement improvements to its service towards customers. The market for accumulation and retirement bank-savings products is competitive. Aegon Bank is an important provider in this market without being a price leader.

In the balance of fair rates and excellent service, the inflow of savings, related to personal income tax ‘box 1’ was above target. As to customers with expiring capital, the intermediary channel as well as the online distribution channel (execution only online and through ‘Mijn Aegon’), made a significant contribution to this inflow. In the current economic climate clients still seem to prefer savings rather than investments. Generating inflow in investments therefore proves to be challenging in spite of the fact that Aegon Bank has launched a new proposition with an investment component. Even though the amount of clients with investment products has increased over the year, the amount of assets under management stays behind target. Aegon Bank focuses on continuous improvements throughout the organization. Customer feedback is the main source for our improvements.

Aegon Bank N.V. achieved promising commercial and financial results. Performance indicators such as Operational Results, Return on Equity and Cost to Income Ratio have developed positively over the years. The asset class consumer loans made a significant contribution to the financial results. During 2017 Aegon Bank issued its third and fourth covered bond, becoming a committed issuer in the market. Furthermore Aegon Bank performed one large strategic ALM mortgage transaction. Objective was to buy shorter duration mortgages and sell longer duration NHG mortgages. The realized result on mortgages positively impacted the result for the year. On the other hand the amortization over the market premium of the mortgages bought in the ALM transaction resulted in an additional interest charge for the coming years.

Aegon Bank further implemented the Quality Control Team (QCT) which is now fully operational. QCT supports senior management to strengthen the overall internal risk governance and control within Aegon Bank N.V.

Following a rapidly expanding workload in key areas of the team (e.g. SREP, Marketplace Lending platforms, In Control, Modelling), Aegon Bank has decided to restructure the Capital Management team in order to adequately staff per focus area for the coming years. As per November 2017, the Capital Management department has been restructured, and has been split into two: Capital Management and Modelling and ALM and Liquidity & Pricing,

For Aegon Bank N.V. (which comprises of the two labels Aegon Bank and Knab) growth of ‘fee business’ is viewed as a relevant component of profitable growth. Fee business can be generated through offering services or investment products for which clients pay a fee to Aegon Bank. In spite of the fact that the component of fee business at Aegon Bank as compared to spread business is increasing, this is one of the biggest challenges Aegon Bank is faced with. Aegon Bank and Knab expect to increase the amount of fee business by launching Aegon Beheerd Beleggen and Knab Beleggen. In 2017 a conversion was made of existing investments clients in various products into these new propositions.

In 2017 Aegon Bank N.V. reported Basel III ratios to the Dutch Central Bank (De Nederlandsche Bank N.V. - DNB), namely the CET1-ratio, the leverage ratio, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Basel III is being introduced in stages between 2015 and 2019. Minimum requirements will then apply to each ratio. The reported ratios show that Aegon Bank N.V. already complies with the proposed legislation and meets these targets for solvency, leverage ratio, LCR and NSFR when the legislation becomes effective. Aligned with Aegon Bank N.V.’s strategy, the liquidity ratio as well as the solvency ratio were maintained at prudent levels and the solvency ratio remained above the target level throughout the year. Our stress tests show that we continue to have a stable and solvent financial position with substantial buffers to absorb any extreme but still plausible shocks in the financial markets.

Knab

During 2017 many customers decided to join Knab even though the pricing element in our proposition was not always competitive. Knab was able to continue to deliver its customers good quality: the banking services operated well and customer satisfaction remained (very) high. The NPS score Knab stays at a high level (average 2017 NPS private customers +21, NPS small business +39). The amount of clients increased from 130,000 to 164,000 clients during the course of 2017. In Q3 we had the national release of our Knab Insurance proposition. In 2017 we had roughly 25,000 downloads and 4,800 advices. Also, we further integrated the Knab Mortgages (former Eye Open) within the knab organization (responsible for 3,800 advices). At the Crowdfunding platform in cooperation with Collin our customers invested a total of approx. EUR 7 million in various loans.

Improvements have been achieved when it comes to communications with clients. Knab implemented a messaging tool within the knab apps and web environment. Next to that, Knab introduced online payment verification (without using the cardreader). To increase speed and quality of delivery and to increase in control levels Knab started an Agile Transition.

Aegon PPI

Aegon PPI continued its growth in 2017, in terms of assets under management, customers (employers) and participants. Based on a transparent and accessible Defined Contribution scheme, its ‘subscription proposition’ (‘Pensioenabonnement’) product responds to employers’ needs regarding their responsibility towards employees. Many new customers, large and small, and intermediaries have discovered this modern pension proposition. The Aegon Pensioenabonnement offers simplicity and cost effectiveness. The product is designed to quickly respond to legislative changes, such as the new legislation regarding the standard retirement age and fiscal pension framework prescribed by the government which became applicable in 2018.

With input from our customers, participants and advisors we continuously improve the Pensioenabonnement. In 2018 further improvements to the portals for the employer, participant and advisor are planned to give each of these stakeholders more relevant and up-to-date (pension) information.

Cappital Premiepensioeninstelling

Since April 1st, 2016, Cappital Premiepensioeninstelling is a 100% subsidiary of Aegon Nederland which was originally established in 2011 as a foundation (e.g. Stichting Cappital Premiepensioeninstelling).

As in previous years, Cappital grew substantially in 2017. This was caused by the acquisition of large companies, as well as by the incoming transfers of pension rights. The amount of incoming transfer of pension rights in 2017 was EUR 174 million (2016: EUR 230 million).

The activities of Cappital are based on a transparent and accessible Defined Contribution scheme, its ‘subscription proposition’ product responds to employers needs regarding their responsibility towards employees. Cappital offers simplicity and cost effectiveness. In addition Cappital offers the employees user friendly communication tools for their financial planning. Cappital has a strong position and a good reputation by larger companies.

For 2018, Cappital expects further growth in terms of new customers and incoming transfer of pension rights of existing clients.

TKP Pensioen

TKP administers pension rights for pension funds and premium pension institutions. At the end of 2017, 40 customers had entrusted this important work to TKP. Their clients - 3.3 million participants – rely on TKP for correct and timely pension payments, and clear and accessible pension information and communication. Central to TKP's strategy is a focus on simplicity, for customers, for participants and for employers. TKP wants to offer participants and employers better service and more convenience. And to be a strategic partner for pension funds, with a reliable and flexible pension administration that is flawless. With the program 'TKP Connect', TKP is working towards a more customer-oriented and agile organization in the coming years.

The specialists at TKP perform work for 23 pension funds, 14 social funds, 1 general pension fund and 2 premium pension institutions. On behalf of these customers, in 2017 TKP has payed-out approximately € 2.1 billion in pensions. TKP supports pension providers in achieving their strategic objectives. TKP does this with a reliable and flexible pension administration at low costs. The ambition goes further: TKP wants to be the best digital pension platform. The strategic programs launched in 2017, focus on digitization of services, more intensive and strategic contact with customers, automation of processes and simplification of arrangements.

In 2018 TKP will work with full conviction, systematically and carefully, on its change-strategy. TKP invests heavily in innovation and digitization and continues to develop a state-of-the-art pension platform, based on the promise of 'Pension made easy'. In addition, TKP brings its operations in line with the requirements of the General Data Protection Regulation (AVG). The new platform will soon comply with the AVG and the guidelines of the National Cyber Security Center (NCSC). Safety and protection of personal information becomes part of everything that TKP does. In 2018, TKP expects a turnover increase to € 87 million and an increase in the number of participants in the pension administration to approximately 3.6 million participants.

Unirobe Meeùs Groep ('UMG')

UMG with its most important labels Meeùs Assurantiën, IAK Verzekeringen, Kröller Verzekeringen and UMG Assuradeuren (authorized agent), is one of the largest independent financial intermediaries in the Netherlands in the field of insurance, pensions and mortgages. UMG and its labels work for companies, (semi) governmental bodies, retail clients and private persons.

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG), an independent financial advisory group, to Aon Groep Nederland for EUR 295 million. The transaction is consistent with Aegon Nederland's strategic objective to optimize its portfolio across its businesses.

2. Financial information

2.1. Developments during the year

Underlying earnings reflect our profit from underlying business operations and exclude components that relate to accounting mismatches that are dependent on market volatility or relate to events that are considered outside the normal course business. Non-underlying earnings are earnings dependent upon market volatility or relate to events that are considered outside the normal course of business.

Earnings per line of business

Amounts in EUR million	2017	2016
Pensions	174	192
Life	161	185
Savings	139	124
Non-life	30	1
Distributions	17	27
Underlying earnings before tax	**521**	**529**
Fair value items	-113	-30
Gains/(losses) on investments	184	189
Impairment charges/(reversals)	-17	-12
Other income/(charges)	319	51
Non-underlying earnings before tax	**374**	**198**
Income before tax	**895**	**727**
Income tax	-168	-156
Net income	**727**	**571**

Aegon Nederland's income before tax in 2017 was EUR 895 million (2016: EUR 727 million). The underlying earnings before tax decreased with EUR 8 million and the non-underlying items were EUR 176 million higher compared to the prior year.

In the following paragraphs more details on the development of income before tax are given.

Underlying earnings before tax
Underlying earnings before tax amounts to EUR 521 million (2016: EUR 529 million).

The changes per business line are explained as follows:

The business line Pensions decreased with EUR 18 million compared to 2016. This is mainly due to lower results on morbidity and interest. Interest result is negatively impacted by declining yields on investments.

The business line Life decreased with EUR 24 million compared to 2016. This is mainly due to the shrinking 'service book' portfolio of the life business.

Earnings within business line Savings increased with EUR 15 million compared to 2016. The growth of Knab led to an increase of Assets under management of EUR 871 million (2016: EUR 1,416 million). Together with declining interest rates this led to higher interest margins compared to 2016. The increased balance sheet drives additional income from the mortgage book, although the rates on mortgages are declining. Furthermore increased exposure on consumer loans resulted in additional income compared to last year.

The business line Non-Life significantly improved. This is mainly due to the divestment of the non-strategic portfolio.

Developments in non-underlying income before tax, revenues per line of business in 2017 are summarized below.

Fair value items
Total fair value items are EUR 83 million lower compared to 2016. This is explained by the decreased result on derivatives and the guaranteed portfolio -/- EUR 135 million compared to 2016. This is mainly the result of incorporating Solvency II and Economic Framework objectives in the hedge strategy which lead to increased volatility of earnings under IFRS. Optimizing the hedge strategy between IFRS and Solvency II is a continuous process. The decreased result on derivatives and the guaranteed portfolio was partially offset by increased positive revaluations of EUR 52 million compared to 2016 on the real estate portfolio due to ongoing positive developments on the Dutch real estate market.

Gains/(losses) on investments
Gains on investments remained stable in 2017 (EUR 184 million) compared to 2016 (EUR 189 million). Aegon Nederland continuously rebalances the asset portfolio to stay within internal interest rate risk limits. The higher realized gains on the fixed income portfolio, following de-risking activities, are partially offset by lower realized results on the equity portfolio in 2017 (EUR 45 million) compared to 2016 (EUR 74 million). This stems mainly from sales and capital distributions in the Private Equity portfolio.

Other charges
Other income/(charges) increased in 2017 with EUR 268 million to EUR 319 million (2016: EUR 51 million). This is primarily due to the sale of Unirobe Meeùs Groep (UMG), as part of Aegon Nederland’s strategic objective to optimize its portfolio across its businesses. The divestment lead to a book gain of EUR 207 million pre-tax, which is reported as “other income”. The remainder relates to the model changes in 2017.

The higher impairment charges are mainly due to the increased portfolio in consumer loans.

<u>Revenues</u>

Amounts in EUR million	2017	2016
Pensions	1.253	1.336
Life	601	675
Accident and health	203	210
General insurance	148	266
Gross premiums	**2.205**	**2.488**
Investment income	2.173	2.134
Fees and commissions income	329	353
Total revenues	**4.707**	**4.974**

Pensions
Revenues at the business line Pensions decreased in 2017 to EUR 1,253 million (2016: EUR: 1,336 million). The recurring premium production decreased. This is partly caused by a shift from traditional pension products to PPI, for which Aegon Nederland receives fees, and partly due to ongoing strong price competition, especially in the midmarket segment. Although market circumstances for buyout deals remained difficult (e.g. low interest rates), single premium production increased, mainly due to the introduction of the new product ‘Uitkerend Beleggingspensioen’.

Life
Compared to last year revenues decreased with EUR 74 million. Recurring premiums were lower than last year due to expired contracts which could not be offset by new production. The single premiums were also lower than in 2016, mainly due to the declining market for individual life insurance products as a result of strong competition from bank saving products.

Non-Life
Premium revenues of business line Non-Life, consisting of Accident and Health and General Insurance, decreased by EUR 125 million. This is mainly caused by the divestment of the non-strategic commercial portfolio in 2016.

Mortgages
Total mortgage production in 2017 increased to EUR 9.0 billion (2016: EUR 6.3 billion). The mortgage production for fee business increased to EUR 4.6 billion (2016: EUR 4.2 billion) whereas the mortgage production for own account increased to EUR 4.4 billion (2016: EUR 2.1 billion).

Fees and commissions expenses

Amounts in EUR million	2017	2016
Commissions	57	99
Operating expenses	865	862
Deferred expenses	-11	-11
Amortization charges DPAC/VOBA	27	32
Total commissions and expenses	**938**	**982**

The decrease in commissions and expenses in 2017 is mainly explained by the decrease of commissions by EUR 42 million caused by the sale of the non-strategic commercial non-life portfolio. Operating expenses remained stable in 2017 compared to 2016 as a result of increased expenses due to the growth of business at Knab, TKP and Hypotheken. These increases are offset by cost savings in the non-life business due to the divestment of the non-strategic commercial portfolio. Furthermore, the cost of the Aegon Pension scheme increased compared to 2016, mainly due to higher service costs.

Solvency and financial position
Shareholders' equity at December 31, 2017 amounts to EUR 6,861 million compared to EUR 5,495 million at year-end 2016. The increase of EUR 1,366 million is mainly due to a EUR 1,000 million capital contribution of Aegon N.V., the ultimate parent company of Aegon Nederland N.V., to improve the capital position of Aegon Nederland's subsidiary Aegon Levensverzekering. This was done through two capital contributions in terms of share premium by Aegon Europe Holding B.V. of respectively EUR 200 million on July 7, 2017 and EUR 800 million on August 31, 2017.
The remainder is mainly due to net income (EUR 727 million) in the income statement, which is partly offset by the movement in the statement of comprehensive income (-/- EUR 363 million), related to movements in the defined benefit obligation for Aegon personnel and the revaluation reserve for investments.

Cash flows and funding
During 2017 the net cash flows increased with EUR 980 million (EUR 1,193 million increase in 2016). This increase is mainly explained by an increase in cash from financing activities of EUR 1,105 million (EUR -/- 886 million in 2016), mainly due to the capital contribution of EUR 1,000 million.

At year-end 2017 the funding structure of Aegon Nederland mainly exists of own equity as well as funding through secularizations and saving deposits.

Circumstances that impact future income and results

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG) to Aon Groep Nederland, as part of its strategic objective to optimize its portfolio across its businesses. As a result of the sale of UMG, distribution earnings will decrease with approximately EUR 20 million going forward. The remainder of distribution is related to Nedasco B.V. and van Nierop Assuradeuren N.V..

The main drivers of future income and results are interest rate developments and market- and demographic developments. No significant changes are expected for the following year regarding investing, financing and Expense Fit. Furthermore, Aegon Nederland did not perform significant activities regarding research and development during the year, nor expects to do so in the near future.

2.2. Solvency II

Insurance supervision in EU member states is based on EU legislation, which, as of January 1, 2016, is embedded in the Solvency II framework.

The Solvency II framework also consists of an EU Directive (Level I) and has consequently been transposed into the Dutch Financial Supervision Act. A large part of the Level II Solvency II rules are, however, also set out in EU regulations. These apply directly in EU member states, and as a consequence have not been implemented into national legislation.

The following insurance entities of Aegon Nederland are subject to prudential insurance supervision of DNB:
Aegon Levensverzekering N.V.;
Aegon Schadeverzekering N.V.;
Aegon Spaarkas N.V.; and
Optas Pensioenen N.V.

An insurance company is not permitted to conduct both life insurance and non-life insurance business within a single legal entity (with the exception of reinsurance). In addition, it is not permitted to carry out both insurance and banking activities within the same legal entity.

Within Aegon Nederland, Aegon Levensverzekering N.V., Aegon Spaarkas N.V. and Optas Pensioenen N.V. conduct life insurance activities. Aegon Schadeverzekering N.V. conducts non-life insurance activities. Banking activities are covered through Aegon Bank N.V.

Prudential supervision is exercised by the home state supervisory authority (DNB in the Netherlands). One of the main quantitative elements of insurance supervision is the assessment of the solvency position of the insurance company. The solvency position is assessed through a comparison of available capital (Own Funds) and required capital (Solvency Capital Requirement).

With respect to the Own Funds of Aegon Nederland, the liability calculation includes the use of the volatility adjustment, but does not include the use of any transitional measures. Aegon Nederland uses a Partial Internal Model (PIM) to calculate the Solvency Capital Requirement for its life insurance activities under Solvency II. The Partial Internal Model was approved by DNB on November 26, 2016, concluding the Internal Model Application Process.

After the initial Internal Model Application Process, Aegon Nederland has made some minor changes to the internal model and has submitted two major changes to DNB for approval. Until approval, these model changes are not reflected in the solvency position of Aegon Nederland.

Aegon Nederland uses a standard formula to calculate the solvency position of its non-life insurance activities related to Aegon Schadeverzekering under Solvency II. The solvency position of the banking activities will continue to be calculated using the CRR/CRD IV framework.

As per December 31, 2017, Aegon Nederland's capital position is:

	31-12-2017*	31-12-2016
Own Funds	6.484	5.056
Partial Internal Model SCR	3.254	3.769
Solvency II ratio	**199%**	**134%**

	Solvency II Ratio*	Solvency II Ratio
Aegon Levensverzekering	186%	120%
Aegon Schadeverzekering	176%	159%
Aegon Spaarkas	479%	440%
Optas Pensioenen	721%	540%
Aegon Nederland	**199%**	**134%**

*The Solvency II ratio for 2017 is an estimate, is not final until filed with the regulator and subject to supervisory review.

The increased Solvency II ratio of Aegon Nederland is mainly due to the capital contribution of EUR 1.000 million, the sale of UMG, positive market impacts, and model adjustments approved by the DNB, which mainly related to adjusting the calculation of spread risk. These benefits were partly offset by higher capital requirements from an ongoing program of increasing the share of illiquid investments on the balance sheet of Aegon Nederland.

The sale of UMG increased the Solvency II capital with approximately EUR 225 million. This improved the Solvency II ratio of Aegon Nederland by an estimated 7%-points. During 2017 Aegon Nederland provided Aegon Levensverzekering with a capital injection of EUR 1,050 million. This improved the SII ratio of Aegon Levensverzekering with an estimated 40%-points.

<u>Minimum regulatory solvency requirements</u>
Insurance laws and regulations contain minimum regulatory capital requirements of 100% Solvency Capital Requirement (SCR) for insurance companies in the European Union. For insurance companies in the European Union, Solvency II also defines a lower capital requirement, the Minimum Capital Requirement (MCR). An irreparable breach of the MCR would lead to the withdrawal of the insurance license.

With the introduction of Solvency II for EEA countries, Aegon views these minimum regulatory capital requirements as the level around which the regulator will formally require management to provide regulatory recovery plans. For insurance companies in the European Union this is set at 100% SCR.

All insurance entities operate in excess of this requirement.

The Solvency ratios as disclosed in this section represent Aegon's estimates and are not final until filed with the regulator and subject to supervisory review. Aegon's factor for the loss absorbing capacity of deferred taxes (LACDT) in the Netherlands is 75%. The LAC DT factor of Aegon NL is assessed on a quarterly basis, following DNB guidance, while monitoring effects of upcoming corporate tax changes in the Netherlands and LAC DT related proposals in the SII regulation consultation paper of EIOPA. Should the loss absorbency of taxes factor be lowered with 25%, this would result in an 11%points decrease (2016: 8%points decrease) of the Solvency II ratio.

Moreover, the lowering of UFR from 4.2% to 4.05% would result in an estimated impact of 4% decrease of the Solvency II ratio. The Solvency II capital ratio of Aegon Nederland does not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon Nederland in the past as the potential liability cannot be reliably quantified at this point. In addition, discussions are ongoing with respect to the interpretation/substantiation of certain elements in the technical provisions and SCR.

The capitalization of Aegon Nederland and its subsidiaries is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. The Solvency II SCR target range for all insurance subsidiaries of Aegon Nederland, which is a self-imposed target range, are shown in the table below. As per December 31, 2017, all insurance entities under the management of Aegon Nederland operate in excess of the target range.

Capital Ratio	Aegon Leven	Optas	Aegon Schade	Aegon Spaarkas	Aegon NL[1]
Opportunity	>175%	>235%	>175%	>205%	>190%
Target	145% - 175%	165% - 235%	145% - 175%	155% - 205%	150% - 190%
Retention	130% - 145%	150% - 165%	130% - 145%	140% - 155%	130% - 150%
Recovery	100% - 130%	100% - 150%	100% - 130%	100% - 140%	100% - 130%
Regulatory Plan	<100%	<100%	<100%	<100%	<100%

3. Main risks and uncertainties

3.1. General

As a financial institution, Aegon manages risk for the benefit of its customers and other stakeholders. As a result, the Company is exposed to a range of underwriting, operational and financial risks. Aegon's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's strategy.

3.2. Objectives

Aegon's risk appetite is determined by customer needs, Aegon's competence to manage the risk, the preference of Aegon for the risk, and whether there is sufficient capacity to take the risk. Key inputs for Aegon's risk preferences include expected returns, alignment between Aegon, counterparty and customer interests, the existing risk exposures and other risk characteristics such as diversification, the severity of the risk in an extreme market event and the speed at which risks can materialize in Aegon's capital position, liquidity position and net income.

[1] Formally the individual legal entities of Aegon NL are regulatory supervised. However, from an overall point of view we also set limits for Aegon NL. This is also relevant from an Aegon Group point of view, which consolidates Aegon NL in the calculation of its PIM solvency capital ratios.

In line with the risk appetite, key risk indicators (limits) are established to ensure that Aegon maintains, at all times, a solvency and liquidity position such that in all circumstances the interest of policyholders are met and protected. To accomplish this, Aegon has established a number of risk criteria:

- **Financial strength**: ensure Aegon meets long-term obligations to our clients, thereby enabling Aegon to compete in key markets as a financially strong global insurer
- **Continuity**: ensure that Aegon meets our obligations, even under extreme event scenarios
- **Culture**: encourage strong risk awareness by communicating our risk appetite. This helps to improve operational excellence and ensures fair treatment of our stakeholders
- **Behavior and Compliance**: ensure that Aegon complies with the spirit and the text of laws and regulations and encourage the right behavior and mindset
- **Risk balance**: manage the concentration of risk and encourage risk diversification within Aegon

3.3. Governance framework and structure

The goals of a strong culture of risk management and governance are to:

- Minimize ambiguity by clearly defining roles and responsibilities and risk reporting procedures
- Institute a proper system of checks and balances
- Ensure that senior management is aware of material risk exposures
- Manage risk in line with the risk appetite
- Reassure external stakeholders regarding appropriate risk management structures and controls

Aegon's risk management framework is represented across all levels of the organization. This ensures a coherent and integrated approach to risk management throughout the Company. Similarly, Aegon has a comprehensive range of company-wide risk policies that detail specific operating guidelines and limits. These policies are designed to keep overall risk-specific exposures to a manageable level. Any breach of policy limits or warning levels triggers immediate remedial action or heightened monitoring.

Further risk policies may be developed at a local level to cover situations specific to particular business units.
Aegon's risk management governance structure has two basic layers:

- Risk & Audit Committee (Operational, including Compliance risks)
- Risk & Capital Committee (Financial risks)

In addition to these two basic layers, Aegon has established four key functions, required by Solvency II, which include the risk management function, Compliance function, Internal audit function and actuarial function. It is the mission of the Risk Management function to ensure the continuity of the Company through safeguarding the value of existing business, protecting Aegon's balance sheet and reputation, and through supporting the creation of sustainable value for all stakeholders.

In general, the objective of the Risk Management function is to support the business lines and support units in ensuring that the Company reviews, assesses, understands and manages its risk profile. Through oversight, the Risk Management function ensures the risk profile is managed in line with Aegon's risk appetite, and stakeholder expectations are managed under both normal business conditions and extreme conditions caused by unforeseen events. The following roles are important in order to realize the objective of the function:

- Advising on risk-related matters including risk appetite, risk governance and risk methodology
- Supporting the development, incorporation and maintenance of the ERM framework
- Monitoring and challenging the implementation and effectiveness of ERM practices

3.3.1. Advising on risk-related matters

- Bringing businesses together to facilitate information exchange, sharing best practices and working together on relevant case studies and external standards in order to develop, adopt and maintain relevant standards of practice throughout Aegon
- Optimizing the use of capital and growth within risk/return and consumer conduct criteria

3.3.2. Supporting and facilitating

- Developing and maintaining the ERM framework for identifying, measuring and managing all material risks the Company is exposed to as defined in Aegon's risk universe and protecting Aegon's reputation
- Developing and maintaining Aegon's risk methodology
- Supporting the businesses with implementing the ERM framework, risk methodology and standards of practice where needed
- Supporting the Management Board in ensuring the effective operation of the ERM framework and related processes, providing subject matter expertise to businesses as appropriate and facilitating information exchange on good risk practices
- Identifying and analyzing emerging risks, being input for ongoing risk strategy development and to ensure that Aegon's risk universe remains up to date
- Model validation ensures independent review of methodology, assumptions, data, testing, production, reporting and use of the Solvency II PIM
- Analyzing Solvency II PIM outputs and performance and reporting results to the Boards and relevant (Supervisory) Committees
- Providing assurance on the integrity of models and cash flows through model validations and maintenance of model validation policies and standards
- Promoting a strong risk management culture across Aegon, including review of performance targets and remuneration in line with the Aegon Group Global Remuneration Framework

3.4. Challenging and monitoring

- Monitoring the ERM framework and overseeing compliance with risk governance requirements, risk strategy and risk appetite, risk policies and risk methodology, which are applicable to all businesses for which Aegon has operational control
- Ensuring appropriate risk management information is prepared for use by the risk committees
- Overseeing material risk, balance sheet and business decisions taken throughout Aegon in line with established risk governance arrangements
- Monitoring and reporting on risk exposures and advising management on risk management related matters, including in relation to strategic affairs such as strategy, mergers and acquisitions and major projects and investments
- Monitoring that the internal model is and remains appropriate to the Company's risk appetite and informing management about the on-going performance, suggesting improvements
- Monitoring risk exposures and risk policy compliance, including review of the Own Risk and Solvency Assessment (ORSA) and Recovery Plan defined triggers and early warning indicators
- Acting as independent business partner with focus on control excellence, customer conduct, capital allocation and by providing management focused risk tools or fostering debates and proactively challenging on key business developments that may create significant exposure
- Providing subject matter expertise and overseeing critical business initiatives to strengthen risk management activities, to improve the risk profile and to resolve risk events and control issues
- Embedding robust oversight and risk management culture and processes
- Protecting capital for all stakeholders

3.5. Lines of defense

Aegon’s risk management structure is organized along three ‘lines of defense’ to ensure conscious risk-return decisions, and to limit the magnitude of potential losses within defined levels of certainty. The objective of this structure is to avoid surprises due to the materialization of unidentified risks, or from losses that exceed predefined risk tolerance levels and related limit structures. The Company’s three lines of defense are its business and support functions, the Risk Management department, and the audit function.

The Company's first line of defense, including the business and support functions, has a direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerances and risk policies.

The second line of defense – including the risk management function, compliance function and actuarial function – facilitates and oversees the effectiveness and integrity of ERM across the Company.

The third line of defense – the audit function – provides independent assurance opinions on the effectiveness of the internal control, risk management and governance systems.

3.6. Risk management 2017

Aegon faces a number of risks, some of which may arise from internal factors, such as inadequate compliance systems. Others, such as movements in interest rates or unexpected changes in longevity or mortality trends, are external in nature. The most significant risks Aegon faces are that of changes in financial markets (particularly related to fixed income credit, equity and interest rates) and underwriting risk (particularly related to longevity and policyholder behavior). The risks, whether internal or external, may affect the Company's operations, earnings, share price, value of its investments, or the sale of certain products and services. Risks can be categorized into Operational risks and Financial risks.

3.7. Operational risks

Aegon faces operational risk resulting from operational failures or external events, such as processing errors, acts from personnel, and natural or man-made disasters. Aegon’s systems and processes are designed to support complex products and transactions and to avoid such issues as system failures, business disruption, financial crime and breaches of information security. Aegon analyzes on a continuous basis, such operational risks, and regularly develops contingency plans to deal with them.

Operational risks are related to the operational activities and internal processes of Aegon Nederland and include, amongst others, the risk of fraud and financial reporting, which could lead to reporting incidents. Through Risk and Control Self Assessments, all processes are analyzed periodically and recalibrated in order to bring risks within the thresholds of our risk appetite. In case of risk events, a Root Cause Analysis is performed in order to investigate whether a control was missing or if a particular control failed. Action plans are put in place to improve organizational control and these are continuously monitored by the Operational Risk Management department.

3.7.1. Strategic risks

In a highly competitive and regulated market, Aegon Nederland is facing some challenging circumstances, such as low interest rates, a changing economic environment and a decline of the life insurance market. Aegon Nederland's strategic risks are identified in strong collaboration between the Management Team of Aegon Nederland and the Risk Management & Compliance department. All of these risks are monitored periodically. The underlying action plans are challenged on their rigor and depth in order to address the risks at hand and reduce the residual risks to an acceptable level.

In order to stay successful, Aegon Nederland moved from a product oriented organization towards a customer oriented organization in 2017. In addition, Aegon Nederland increasingly makes use of new technologies that create new opportunities in the way products and services are provided to the customers. At the same time, Aegon Nederland is improving its administration services by outsourcing part of her administration to more specialized parties. These are all examples of promising developments with inherent strategic risk components. Central to this is continuing the shift to fee-based businesses, while maximizing the value of the heritage business through cost savings and alternative investments.

Aegon Nederland has identified strategic risks that relate to the businesses Aegon conducts. Strategic risks include for instance longevity, default, financial crime, liquidity, compliance, processing, reporting, modelling, outsourcing and information security risks.

3.7.2. Regulatory and compliance risks

Aegon Nederland aims to embed compliance with laws, regulations, business principles, rules of conduct, customer agreements and established good business practices in every aspect of the organization. Aegon Nederland promotes integrity by establishing and maintaining effective compliance risk management and control systems, including monitoring and reporting is key for Aegon Nederland. Among the regulatory risks Aegon considers are also the risk related to the litigation portfolio and product-related issues. Aegon Nederland has a process in place to ensure that it flags and defines the impact of new laws and regulations and implements them in a timely manner. The Board of Directors and the Legal department are responsible for executing this process. The Risk Management & Compliance department assesses from the second line whether this process is adequate and if necessary, advises and challenges the proper execution of this process.

To best safeguard customers' interests, Aegon does not simply put any proposition on the market. Every new and updated proposition follows a proposition-approval process. In this process, we carefully balance the risks in a proposition and test it against the duty of care towards the customer, financial sustainability and suitability within the Aegon Nederland vision, strategy and objectives. In addition to the proposition approval process, Aegon Nederland uses a propositions review process for existing propositions. Existing propositions, selected through the use of pre-defined risk indicators, also go through this process to best safeguard customers' interests. Both processes determine whether a proposition meets Aegon Nederland's current standards. They incorporate statutory requirements and consider whether the proposition is cost efficient, useful, secure and comprehensible for the target group and also whether it fits the Aegon Nederland vision, strategy, core values and competences.

3.7.3. Reporting risk

Aegon N.V. is subjected to Sarbanes Oxley (SOx) and Solvency II regulation, and as a significant entity also Aegon Nederland is compulsory to comply with specific stringent regulation. Aegon Nederland tests the design, existence and performance of key controls on a yearly basis to ensure that material misstatements in the financial figures can be prevented or detected in a timely manner. Based on a materiality threshold and qualitative indicators Aegon Nederland determines which accounts of the financial statement are in scope for this internal financial audit. Procedures ensure that operational risk management is able to independently conclude and provided reasonable assurance of the internal controls over financial reporting.

3.7.4. Modelling risk

Modelling risk includes flawed and/or insufficiently documented methods used in model design, or incorrect model coding or calculations caused by change management failure, flawed or insufficient model development and testing procedures. This also includes flawed and/or incorrect model assumptions and insufficient documentation of expert judgment, incorrect model results as a result of the use of incomplete, inaccurate, or inappropriate data or models used in production are corrupted, not sufficiently understood by users, not used for its intended purpose, or not at all, or insufficiently documented.

An Aegon model validation framework is operated to ensure that the models remains appropriate to measure risk exposure and hence risk capital in the business. Risk measurement calibration is derived by the model owners and model owner testing. Model validation involves the assessment of each model across a range of validation tests and standards as set out in the framework. This is conducted independently by the model validation team within the second line of defense.

3.7.5. Outsourcing risk

Outsourcing risk includes discontinuity of outsourced services e.g. bankruptcy, disruption of services, or standards of service level agreements not being met. Possible misuse of both the ability and capability of the outsourcing/ supplier party is perceived as a specific Outsourcing Risk. As well as the disregard of concentration risk implications at the outsourcing/ supplier party and potentially at the sub-supplier. Aegon manages outsourcing risks via dedicated service level managers, contract management, service level reports, site visits, assurance report reviews and periodic meetings.

3.7.6. Information security risk

Information security risk relates to confidentiality, integrity and availability of information. Access to data by unauthorized parties could lead to loss of competitive advantages or could lead to privacy related risks. Information risk includes unauthorized or erroneous changes to business data or applications (business process controls) leading to fraud, error or failing internal controls. It also includes the loss of data and systems, or unavailability, causing inability to meet business process needs.

Aegon protects and continually strengthens its existing security control environment and use preventive tooling to minimize impact and exposure to new and existing threats. Evaluations of security controls – including detection and response capabilities are frequently performed by both internal and external experts. Identified vulnerabilities are followed-up by risk based actions plans, which are reported, tracked and monitored by management.

3.7.7. Credit risk

Credit Risk is a combination of Fixed Income Risk and Counterparty Risk. Fixed Income Risk is the risk that the market value of fixed income investments will fluctuate because of changes in the financial condition of the obligor. This risk can result from changes in the rating category of the obligor, regular fluctuation of spreads associated with each credit rating over time, and potentially default. Counterparty Risk is the risk that the value of positions taken by Aegon to change its risk-return profile (e.g., derivatives or reinsurance) will fluctuate because of a deteriorating financial condition of those counterparties.Having a well-diversified investment portfolio means that Aegon can accept credit spread risk to earn a liquidity premium on assets that match liabilities.

3.7.8. Equity market risk and other investment risks

Aegon runs the risk that the market value of its investments changes. Investment risk affects Aegon's direct investments in the general account, indirect investments on the account of clients and agreements where Aegon relies on counterparties, such as reinsurance and derivative counterparties. Aegon has a low preference for investments in equity securities via the general account. Equity investments generate an equity risk premium over the long run, but in combination with a high capital charge result in a relatively low return on capital. Aegon has experience and expertise in managing complex investment guarantees and leverages this capability by providing customers access to a range of investment strategies and guaranteed benefits.

3.7.9. Interest rate risk

Aegon is exposed to interest rates as both its assets are liabilities are sensitive to movements in the long and short term interest rates as well as to changes in the volatility of interest rates. Aegon accepts interest rate risk in order to meet customer needs. However, as no spread is earned on this interest rate risk, Aegon prefers to hedge the risk to the extent possible.

3.7.10. Liquidity risk

Aegon needs to maintain sufficient liquidity to meet short term cash demands under normal conditions, but also in crisis situations. To that end, Aegon has put a strong liquidity management strategy in place. Aegon considers extreme liquidity stress scenarios, including the possibility of prolonged 'frozen' capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date. In addition, the Company has liquidity stress planning in place.

3.7.11. Underwriting risk

Underwriting risk relates to the products sold by Aegon's insurance entities. It is the risk of incurring losses when actual experience deviates from Aegon's best estimate assumptions on mortality, morbidity, policyholder behavior, claims and expenses. Aegon has a preference to selectively grow underwriting risk, but this needs to go hand-in-hand with a strong underwriting process. Aegon's earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used to price products and establish technical liabilities. Changes in, among other things, morbidity, mortality, longevity trends and policyholder behavior may have a considerable impact on the Company's income. Assumptions used to price products and establish technical liabilities are reviewed on a regular basis.

3.8. Internal Audit

As explained above, Aegon Nederland is organized along the lines of a ‘three lines of defense’ model. In this set-up, Internal Audit Nederland (IAN) is the third line of defense and the internal audit function of Aegon Nederland N.V. and its subsidiaries. IAN assists the Executive Board, the Risk and Audit Committee of the Supervisory Board and Senior Management in enhancing and protecting organizational value by providing independent assurance opinions, advice and insight on effectiveness of internal controls, risk management and governance.

As the third line of defense, IAN is positioned independently from executive management. To ensure the independence of the internal auditors, the Chief Audit Executive (CAE) IAN has a reporting line to the CEO Aegon Nederland N.V., the Group Chief Audit Executive and the Audit Committee of the Supervisory Boards of Aegon Nederland N.V. and Aegon Bank N.V., respectively.

The Internal Audit Charter (charter), approved by the respective Supervisory Board of Aegon Nederland N.V. and Supervisory Board Aegon Bank N.V., regulates IAN’s authority and responsibilities.

The charter states that independent auditors are not allowed to have any operational responsibilities within the first line of defense.

IAN has regular contact and consultations with the Supervisory Board’s Risk & Audit Committee and the external independent auditor to discuss the audit plan and the outcome of engagements

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

3.9. Asset and Liability Management and Financial instruments

In order to execute on Aegon Nederland’s goal to enable clients to achieve a lifetime of financial security, we offer products that absorb risks on behalf of our clients, such as market and underwriting risks. These risks need to be managed actively. It is unlikely that the risks which we take on from our clients, always automatically lead to our preferred risk profile and therefore we have a risk strategy in place. Aegon Nederland keeps the preferred risks in light of the targeted risk profile, but mitigates the remaining risks by, for example, hedging the risks. Our use of derivatives relates mostly to the latter. For each portfolio containing derivatives, we have set up detailed guidelines on the scope of instruments and the purpose of the derivatives.

Within its total Asset and Liability Management (ALM) framework, Aegon Nederland makes use of predominantly fixed income instruments for matching its liabilities. These are, to a large extent, high quality sovereign and corporate bonds and loans. In addition, in the Netherlands a sizeable portfolio of residential mortgages has been built up to match liability cash flows. Derivatives are used in addition to these instruments in order to hedge the guarantees embedded in some of our products and to optimize our ALM. This can be done through directly targeting specific risks, such as interest rate risk via e.g. interest rate swaps (IRS) or longevity risk via a longevity swap. For more complex risk exposures, we use a combination of options, total return swaps and variance swaps.

Aegon Nederland sees derivatives as a suitable instrument to use in its ALM processes. The derivatives market is a highly regulated market. Any counterparty risks embedded in such transactions are contained with strong collateral processes that Aegon Nederland has put in place for all of its derivatives, through the use of high quality collateral. The advent of central clearing for parts of the derivatives markets has increased the collateral requirements and reduced counterparty risk. Liquidity risk, which is the direct result of the collateral processes, needs to be managed carefully. Due to market movements, our collateral position may change rapidly and in order not to breach any collateral agreements, Aegon Nederland has to ensure availability of sufficient high quality collateral at all times in order to comply with collateral calls from our counterparties. Our liquidity stress testing is set up to monitor this need. Operational risk is another key risk, considering derivatives are specialized instruments that require expertise as well as a specific (IT) infrastructure in order to be managed properly. Furthermore, as recent developments have shown regulatory risk as a category within operational risk, it needs constant monitoring. Our automated processes regarding real-time monitoring, automated controls and integrated reporting reduce operational risks and enable us to comply with increasing demands from regulations.

Aegon Nederland's Risk & Capital Committee, which meets at least once a month, determines and monitors the capital position, the balance sheet as well as the market value income statement. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on hedging strategies to reduce interest rate and equity risks, to manage and possibly hedge actuarial risks, and to decide on the need for securitizations of residential mortgage portfolios in order to improve the liquidity and funding position of Aegon Nederland.

3.10. Pending litigation portfolio and product-related issues

KoersPlan

In June 2013, the Dutch Supreme Court turned down an appeal from Aegon Spaarkas against a ruling of the Court of Appeal with respect to a specific unit-linked product, “KoersPlan”. As a result, Aegon Spaarkas compensated the approximately 35,000 holders of KoersPlan products who were plaintiffs in the litigation.

In June 2014, Aegon announced that it would voluntarily compensate holders of KoersPlan products who were not plaintiffs in the litigation. Compensation amounted to the difference, if any, between the actual premium charged by Aegon and the premium that would have been charged by Aegon for a comparable risk in a product providing only death benefit coverage over the same period. This product improvement is explicitly supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. A follow-up and extension of the Regeling Spaarbeleg for the Spaarbeurs and Spaarlift portfolio of Aegon Spaarkas started in 2017 and is expected to continue in 2018. However, another interest group, Stichting Woekerpolisproces, indicated in 2014 that it will challenge the scope and magnitude of the announced compensation measurement.

Unit-linked products

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 September 2014, consumer interest group Vereniging Woekerpolis.nl filed a class action against Aegon Levensverzekering and Aegon Spaarkas in court. The claim was related to a range of unit-linked products which Aegon sold in the past and include products that already had been subject to litigation, such as KoersPlan.

On June 28, 2017 the District Court of The Hague has rendered a final ruling which limited the scope to three products, Koersplan (tontine), Vermogensplan (tontine) and Fundplan (UL) and excluded all policies with a guarantee. The court upheld the principle that disclosures must be evaluated according to standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose the level of certain charges on a limited set of policies. According to the court these cost levels should be reasonable. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. Both The Vereniging Woekerpolis.nl and Aegon have filed an appeal against the ruling of the District Court in The Hague. Furthermore there are claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) and the District Courts, filed by individual customers regarding Aegon Levensverzekering and Aegon Spaarkas unit-linked products that arguably include similar allegations. At the moment, Kifid is delaying the handling of complaints about the unit-linked policies (beleggingsverzekeringen), awaiting the rulings of the Kifid Appeal Committee.

Securities leasing products (“aandelenlease”)
Lawsuits have also been brought against providers of securities leasing products. In September 2016 the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon’s competitors. It decided that a financial institution was liable where the broker (‘remisier’) who advised on the sales of this financial institution’s securities leasing products was not properly licensed to provide advice with regard to such products. Individual clients and advocate groups have already claimed or alleged that this ruling also applies to Aegon securities leasing products. In July 2016, consumer interest group Platform Aandelenlease filed a class action claim against Aegon Bank regarding Sprintplan. Allegations include among other things, advice by remisiers that lacked proper licenses. In October 2017, the district court of The Hague ruled the case inadmissible and found in favor of Aegon Bank that the Sprintplan liability had been conclusively determined in earlier proceedings and there were nog grounds to hold further class action proceedings. The plaintiff appealed. The case is now pending at the court of appeal of The Hague. Although the last Sprintplan expired more than a decade ago and there is a long history of litigation regarding security leasing products – including the two prior class actions regarding Sprintplan –, it cannot be excluded that these proceedings might have a material adverse effect on Aegon’s results of operations or financial position. There are claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) , the District Courts and the Court of Appeal, filed by individual customers regarding Aegon securities leasing products that arguably include similar allegations.

4. Corporate Governance

Aegon Nederland has a Code of Conduct in place. The Aegon Nederland Code of Conduct is intended to provide further clarity on sound and responsible business practices, and ensure a common approach for how we carry out our business in Aegon Nederland’s markets.

Aegon Nederland also endorses the values from the (Bank and Insurance) oath/promise. The oath/promise is a so-called “moral ethics statement” that is effective in the Netherlands since April 1, 2015 The “moral ethics statement” is given by employees in the financial sector in the Netherlands, with the aim of being fully aware, keeping in mind their special role in society, that they must always carefully weigh the interests of all stakeholders, with the interests of the customer taking a central place.

The most important parts of the oath/promise to be taken concern:
- Integrity and diligence.
- Careful weighing of interests with the customers’ interests taking a central place.
- Compliance with laws, rules and code of conduct.
- Confidentiality and no abuse of knowledge.
- Transparency and responsibility.
- Preservation of trust in the financial industry.

The ultimate holding company of Aegon Nederland, Aegon N.V., is supervised as a financial services group by the Dutch Central Bank 'De Nederlandsche Bank or DNB'. Aegon N.V. observes the laws and regulations applicable in their local markets and country units; for example, Aegon N.V. complies with SEC requirements and the US Sarbanes-Oxley Act. In addition, Aegon N.V. complies with international corporate governance guidelines, including the Guidelines for Multinational Enterprises set in place by the Organization for Economic Co-operation and Development (OECD). This is reflected in the corporate governance of Aegon Nederland.

Governance principles

The Governance principles for Insurers issued by the Dutch Association of Insurers was revoked on 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. Aegon Nederland also complies with other relevant governance guidelines and self-regulation by the Dutch Association of Insurers. Below, the most important elements of our governance principles are explained.

Accountability

We present an overview of the application of our governance principles. This is done on behalf of the insurance companies Aegon Levensverzekering, Aegon Schadeverzekering, Aegon Spaarkas and Optas Pensioenen. The accountability report also forms an integral part of the annual reports of these insurance companies. References below to 'Aegon Nederland' includes these insurance companies.

Supervisory Board

Membership and expertise
The majority of the members of Aegon Nederland's Supervisory Board are formally independent and operate independently in accordance with the Principles and 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 broad-based membership. In Aegon Nederland'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 Nederland's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards.

In 2017 the Supervisory Board consisted of four members, and will be supplemented with a fifth member in 2018. Aegon Nederland and the Supervisory Board believe this number to be appropriate in proportion to the nature, size and complexity of Aegon Nederland and the insurers in the group. Aegon Nederland and the Supervisory Board also believe the size and membership of the committees, such as the Risk & Audit Committee, to be appropriate.

The members have broad social and commercial backgrounds and experience. As members of Aegon Nederland's Supervisory Board and through other supervisory directorships, they have in-depth knowledge of the role and function of insurance companies and their stakeholders in society. Regarding decision making and supervision, the Supervisory Board balances the interests of all stakeholders, including customers, distribution partners and employees. 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 is to be created. In addition to Aegon Nederland performing annual checks of individual critical abilities against the DNB's Suitability Matrix for Supervisory Boards, regular self-evaluations and permanent education programs are followed. If a vacancy arises for the position of chairman, an individual profile is drawn up which focuses on the Supervisory Board's and Aegon Nederland'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 Nederland's main markets.

Experience has shown 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 is also checked in the regular self-evaluations.

The members of the Supervisory Board receive suitable compensation that is independent of Aegon Nederland's financial results. Compensation is set by the General Meeting of Shareholders.

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

The 2017 program focused on (inter alia) Solvency II, earning models, sound operational management/In Control, strategy development, culture change/competence development and sessions on the development of a new and agile way of working (Future Fit way of working).

Members of the Supervisory Board have participated and will continue to participate in the program as a whole or in those parts relevant to them.

Once a year, the Supervisory Board assesses the effectiveness of the permanent education program. In December 2017, the Supervisory Board evaluated its own functioning, this year under the external supervision of KPMG. The results were satisfactory and were discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken.

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 2017.

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.

Board of Directors

Membership

At Aegon Nederland, complementarity and diversity within the Board of Directors is ensured by the members' different backgrounds, personalities and range of knowledge and experience. Whereas the members of the Board of Directors have equal decision-making authority, it aspires to take decisions by consensus as far as possible.

The members of the Board of Directors have broad-based commercial background and experience in the financial sector in general and in insurance in particular. With this wide range of 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 Board of Directors also has the necessary knowledge to be able to assess and determine the main points of Aegon Nederland's overall policy and to form a balanced and independent opinion on the risks that Aegon faces.

The knowledge of the members of the Board of Directors is kept up to standard and is improved by means of Aegon Nederland's permanent education program, which is organized by the Secretary of the Board, together with the HR Learning & Development department. The latter is also responsible for keeping records on participation. The 2017 program focused on (inter alia) Solvency II, earning models, sound operational management/In Control, strategy development, culture change/competence development and sessions on the development of a new and agile way of working (Future Fit way of working). Aegon Nederland encourages other employees to follow useful training courses as well.

In 2017, the Supervisory Board noted that the Board of Directors was functioning well and that the members held sufficient expertise.

In its decisions, the Board of Directors takes into account Aegon Nederland'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 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 above). He is also a member of the Board of Aegon Nederland. In this capacity, the CRO is closely involved in all the decisions that have a material impact on Aegon Nederland's risk profile. The risk management function focuses on financial stability and the impact that systemic risks may have on Aegon Nederland's risk profile. The CRO reports hierarchically to the CEO and also has a direct reporting line to the Chairman of the Risk and Audit Committee of the Supervisory Board.

The CFO is fully responsible for the financial and capital management of Aegon Nederland. The CFO leads the financial function in the statutory board of Aegon Nederland in the broadest sense, to ensure the financial position of Aegon Nederland is known at all times, the management is in control and regulators and other stakeholders receive sufficient reports to form a judgment about the state of Aegon Nederland in time. The function is responsible for the financial policies of Aegon Nederland. Amongst others the departments of Financial Information Management and Reporting Office and Capital Management report to the CFO.

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

Duties and working methods

In its decision making, Aegon Nederland's Board of Directors carefully considers the interests of all parties concerned, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Nederland 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 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 Nederland's vision, the company holds responsibility for people's financial awareness and development. Aegon Nederland strives to offer easily-understood solutions in genuine dialogue in order to enable customers to make conscious decisions about their financial future. Aegon Nederland 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 comes first in our strategy. The strategy aims to carefully balance the interests of not only customers, but also of all Aegon Nederland stakeholders, including employees. Aegon Nederland believes that paying attention to the interests of all stakeholders is in the customer's interest.

The members of the Board of Directors 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 Board of Directors 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 Nederland employees, which is reflected in the Aegon Nederland Code of Conduct and applies to all Aegon Nederland employees. The Aegon Nederland Code of Conduct has been placed on:
http://www.aegon.nl/overaegon/maatschappij/gedragscode/

Since 2012, contracts of employment have included a specific reference to the Aegon Nederland Code of Conduct. By signing their employment contract, employees confirm that they have read and accept the codes of conduct applying at Aegon Nederland and will comply with the current and all 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 Nederland Code of Conduct, the principles in it and the spirit in which it was drawn up.

5. Corporate social responsibility

5.1. General

Responsible and sustainable business is very important to Aegon Nederland and its subsidiaries. It is its mission to enable customers to make self-conscious decisions on their healthy financial future. Every day Aegon Nederland helps people to live a solid financial life, today and later on. Aegon Nederland also knows that not everyone is able to make conscious choices. In society, people need to take care of themselves more and more and unfortunately there are many people who fail to succeed. For that reason Aegon Nederland takes a position in society for people with debts by helping people on their way to opportunities. In addition, Aegon Nederland supports the research into Alzheimer's disease. Aegon Nederland's employees play an important role in both programs.

A third pillar in Aegon Nederland's responsible and sustainable strategy lies in its environment. Amongst others, Aegon is involved in improving the quality of the environment. At Aegon Nederland there is a focus on investments in sustainable real estate and the energy transition. But also by looking at offices, mobility, cooperation with other companies, and by creating awareness amongst employees, suppliers and other stakeholders.

Responsible and sustainable business strategy, implementation and reporting for Aegon Nederland is done by the Responsible and Sustainable business team within the Strategy and Change office. The Aegon Nederland activities are aligned with the department of Strategy and Sustainability of Aegon N.V. in order to maintain focus and share best practices.

5.2. Environment

In 2017 it was decided to increase the impact on the environment with a focus on climate change. Aegon Nederland wants to contribute for that matter to SDG#13 (Sustainable Development Goal number 13 is Climate Action) as an asset manager by investing EUR 40 million in a green loan issued by Mann+Hummel, a global leading player in the filtration market to (re)finance eligible projects - and as an asset owner – through the 50% share in Amvest, the leading Dutch residential real estate fund manager and developer, whose priority it is to make the sector more sustainable.

In Aegon Nederland's offices and as an employer there is also focus on the environment. In Leeuwarden, Aegon Nederland moved in December 2016 from an office with an energy label E to a building with label A, the highest energy-efficiency level. In the renovation of the new building, much attention has been paid to energy efficiency. In addition, at the facility a number of cradle to cradle applications has been chosen. Part of the rooftop of the office in The Hague is now equipped with solar panels, owned by a co-operation of 60 families in the neighborhood. The installation of the panels started in January 2017 and the 539 solar panels will reduce 953 ton CO2.

The biggest part of Aegon Nederland's CO2-emissions of Aegon is caused by mobility. Although a large group of the employees choose to travel to work by public transportation and by bike, the majority comes by car due to the limitations of public transportation. In order to encourage more employees to travel by public transportation and by bike, multiple facilities have been put in place. At both the offices in The Hague and Leeuwarden a bike repair facility is being offered as of 2017. Furthermore, Aegon reduced the amount of leasing cars and increased the number of possibilities to charge an electric car or bike.

5.3. Social

After several months of preparation, Aegon Nederland started in January 2017 with a new program aimed at society: Van Schulden naar Kansen (From Debts to Opportunities). Within this program the aim is to reduce the number of households living in poverty due to debts with 15% in 5 years. By helping the households in the cities in which Aegon is located (Den Haag and Leeuwarden in 2017; Groningen starts in 2018) with learning skills, knowledge and behavior on their financial situation. For that matter Aegon Nederland works together with local organizations. Aegon Nederland supports those organizations financially and with the help of Aegon employees acting as a volunteer. The impact of this program is measured by the Hogeschool van Amsterdam. With 'Van Schulden naar Kansen' Aegon joined its competitor Delta Lloyd.

As in previous years Aegon Nederland had a Kids Counsel in 2017. A Kids Counsel encourages organizations to look at themes, based on the awareness that current decisions will have an impact on future generations. In the reporting year Aegon Nederland's Kids Counsel gave the Board of Aegon Nederland advice on an issue linked to the 'Van Schulden naar Kansen' program: How can you help people who have come out of debt / poverty to keep the new habit they need?

For the sixth consecutive year, employees helped 29 people with 1-on-1 conversations during the 'Pensioen3daagse' to improve understanding of what they would need for their retirement. During the 'Week van het Geld' (Money Week) in March, employees gave 193 lessons at primary schools to raise children's financial awareness on insurance.

In April 2017 approximately 500 employees participated in the so called ‘Volunteering Friday’. During this annual event Aegon Nederland promotes the opportunity to do volunteering work as laid out in the Collective Labor Agreement. The activities are all organized in nearby municipalities. Along with the offices in The Hague, Leeuwarden and Groningen, the subsidiaries Nedasco and UMG also participated. The Volunteering Friday has also expanded to six other Aegon countries this year.

There has been ongoing attention to the sponsorship of the Alzheimer Center of the VU University Medical Center. Since 2002 Aegon Nederland has been the main sponsor. This sponsorship is aligned with Aegon Nederland’s vision: enable people to make self-conscious decisions on their healthy financial future. People who suffer from Alzheimer’s disease are unable to make self-conscious choices. Some of the activities in the 2017 sponsorship were: employees took part in the Alzheimer Rally, business relations and employees joined their effort in the ‘5th Aegon Bike Challenge’ and 50 employees participated the ‘Dam tot Dam loop’ to promote the research on Alzheimer’s disease.

Since 2016, Aegon employees do not get a Christmas hamper anymore. The value is divided into a limited number of charities. The Alzheimer Center is one of them.

5.4. Economic

Corporate Social Responsibility is about People, Planet and Profit. The first two paragraphs of this chapter described the efforts on People and Planet. But Aegon Nederland’s mission also entails the economic perspective: enable customers to make conscious decisions on their healthy financial future.

Aegon Nederland continued the so called ‘Aandacht gesprekken’ were continued in 2017: 1-on-1 contact with people on a specific financial subject of their concern. Approximately 500 this year, with a focus on mortgages. In 2017 Aegon Nederland also helped future parents: Through various channels Aegon Nederland promoted a checklist (‘Kraamlijst’) placed on the company website to find out what future parents need to bear in mind on the (financial) issues of getting a child.

At Knab there were 3,500 customers who completed the Financial Plan in 2017. With a financial plan you get insight into your current and future situation. Step by step, you make a map of your financial situation. The tool then calculates and shows you a complete Financial Plan. Knab also helps you – unsolicited - with specific tips and tricks.

The last example of the products based on Aegon Nederland’s mission, is the Aegon Profielwijzer (Profilepointer). This tool has been developed so participants with a defined contribution scheme can choose between a fixed or variable pension benefit on the retirement date. A participant can already pre-sort in the construction phase with his or her investment choice. This is not a simple choice. That is why Aegon Nederland has developed the Aegon Profielwijzer, with scientific insights of behavioral economics. In 5 minutes, a participant knows what pension fits with him and which investment profile belongs to it. So far, approximately 17,000 customers used this tool. The Aegon Profielwijzer has been rewarded by ‘Wijzer in Geldzaken’ during the Pensioen3daagse in November.

6. Outlook

6.1. Developments

The insurance industry has been in a period of major change for a number of years, partly as a result of developments in the economy, but also because customers, legislators and regulators require it. This trend is expected to continue in 2018.

Aegon wholesale operates in a changing environment: the labor market changes rapidly, people are living longer, the interest rates remain low and employers and employees demand more flexibility. Aegon wholesale is committed to a sustainable future-proof pension system that provides adequate pensions for all participants in the labor market. Aegon is well and broadly positioned in the pension market with administration (TKP), PPIs and Insurance to meet our customer expectations. We continue to invest in new solutions for employers and employees, are an opinion leader and actively involved in public discussions about retirement with all stakeholders.

The strong recovery of the housing market impacts the mortgage market, and will continue to drive increased demand for mortgage products. Disintermediation and new forms of advice on financial products and services are expected to develop and change further in 2018, driving the shift towards cross-channel solutions.

As we have stressed in recent years, technological developments and the digitization of financial services are accelerating. The traditional financial institutions are starting to transform their businesses towards a new era. Addressing these developments is at the core of our strategy.

Finally, economic conditions, the situation in the financial markets and the shrinking insurance market are driving an increased focused on cost efficiency in our markets. All these trends combined require Aegon Nederland to deliver enhanced performance for all our stakeholders at reduced expense levels.

6.2. Post reporting date events and expectations

There are no significant post reporting date events and expectations that have not already been taken into account in the directors’ report or financial statements.

The Hague, 30 April, 2018

The Board of Directors,

M.J. Edixhoven	
R. Zomer	
I.M.A. de Graaf – de Swart	
W.A. Hekstra	
W. Horstmann	

Report of the Supervisory Board

1. General

The Supervisory Board consisted of four members in 2017. The Supervisory Board of Aegon Nederland, currently consists of five members and has the duty to supervise and advise the Board of Directors on its management of the company. The Supervisory Board functions as the supervisory board for Aegon Nederland N.V. and each of the insurance subsidiaries of Aegon Nederland N.V. that are under supervision of De Nederlandsche Bank, i.e. Aegon Levensverzekering, Aegon Schadeverzekering, Aegon Spaarkas and Optas Pensioenen. These Supervisory Boards meet at least four times a year at regular intervals, simultaneously with the Supervisory Board of Aegon Nederland N.V.

The Supervisory Board was involved in the preparation of appointments and dismissals of members of the Board of Directors 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 Board of Directors, 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 Board of Directors.

In 2017, the Supervisory Board performed its duties in close co-operation with the Board of Directors and held six meetings. The Risk and Audit Committee of the Supervisory Board held five meetings. Also the Remuneration Committee held several meetings. The attendance percentage was very high.

The quarterly reports and figures for Q4 2016 and Q1, Q2 and Q3 2017 and the Budget and Medium-term Plan for 2018-2020 were discussed during the regular meetings held in February, May, August and November 2017, respectively.

The regulated entities Aegon Bank and Aegon PPI have separate Supervisory Boards.

2. Subjects discussed during the meetings

During the meetings of the Supervisory Board, the Risk and Audit Committee of the Supervisory Board and the Remuneration Committee, several topics were discussed. Hereafter a list of topics is presented. Regarding some topics a brief explanation is provided.

- Aegon NL In Control Program. The contents of and progress on the In Control Program was discussed and monitored by the Supervisory Board on several board meetings. This included discussions on the Aegon Core values, Aegon Dashboard, Incident Analysis and Chain orchestration. The Supervisory Board was also regularly updated on relevant discussions with DNB
- Sale of Unirobe Meeùs Group to Aon. The Supervisory Board was regularly updated on the sale and was closely involved in the decision making process
- Solvency II updates and discussions in general, regarding (*inter alia*) developments in the Solvency ratio and LAC DT
- Initiatives and discussions on strengthening the Solvency II capital of Aegon Levensverzekering N.V. The Supervisory Board discussed this extensively with the Board of Directors and closely monitored the decision making process and execution of the initiatives
- Reorganization of the Finance department
- Quarterly business results. Each quarter the Supervisory Board was updated on and discussed the business results of (*inter alia*) Aegon Retail and Aegon Wholesale in the context of the Future Fit Strategy. This also included updates and discussions on several key programs
- Alternative asset strategy and Transition Plan for Aegon Levensverzekering. On several occasions the Supervisory Board was informed on the strategy to optimize the balance sheet, the details and execution of the transition plan and the relevant risks
- Capital Management Policy
- Dividend proposals
- DNB ‘Focus’ reports and meeting and AFM annual report and meeting
- Execution of the Future Fit Strategy and new strategic developments, including possible M&A initiatives
- SB self-evaluation (board effectiveness). The Supervisory Board evaluated its own functioning, this year under the external supervision of KPMG. The results were satisfactory and were discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken
- PricewaterhouseCoopers Accountants N.V. Management Letter 2016. A topic of discussion and monitoring concerned the outstanding actions. The Supervisory Board
- Annual report 2016
- Customer NPS
- Changes within Aegon NL organization and management, which (*inter alia*) included (the rationale, benefits and consequences for personnel of) changes within the Aegon Retail and Aegon Wholesale business
- Cost efficiency developments
- Budget MTP 2018-2020
- Updates on DNB and AFM letters, discussions and on sites. Members of the Supervisory Board met with DNB on two occasions

3. Gender diversity (article 2:166 Dutch Civil Code)

Enhancing gender diversity in the Board of Directors and Supervisory Board is an important issue for Aegon Nederland. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into account in view of its aim of having a balanced Board of Directors composition. Mrs. D. Jansen Heijtmajer joined the Supervisory Board on August 4, 2016. The Supervisory Board is aware that its current composition does not meet the 'balanced composition' requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men). When identifying candidates for open positions, the Board actively searches for suitable female candidates. It also instructs external search firms to present female candidates. While this has had a positive effect, the requirement has not yet been met.

4. Risk and Audit Committee

The Supervisory Board has formed a Risk and Audit Committee, whose members in 2017 were Mrs. Jansen Heijtmajer (chair) and Mr. Vink. In 2017, the Audit and Risk Committee met five times. The CEO, CFO and CRO (Mr. Edixhoven, Mr. Zomer and Mr Horstmann) attended meetings on behalf of Aegon Nederland, along with the internal independent Auditor, and managers of Capital Management, Financial Information Management & Reporting Office and the Actuarial and Compliance function holders (or their substitutes). On behalf of PricewaterhouseCoopers Accountants N.V., Mr. Rondhout and Mr. Vermeulen both attended 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 and the Supervisory Board approved the audit plans of both Internal Audit and PricewaterhouseCoopers Accountants N.V., and discussed the Aegon Nederland Risk Appetite. Other topics discussed during 2017 included among others the annual reports, RSR, SFCR reports, developments related to Solvency II, Actuarial Function Holder Report, 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.

5. Remuneration Committee

The Remuneration Committee, whose members are Mr. Vink and Mr. Terpstra, convened in March 2017. In its meeting, the Committee and also the Supervisory Board approved the 2017 Addendum to the Aegon Group Global Remuneration Framework (AGGRF) and the 2017 Aegon NL variable compensation Key Performance Indicators (KPI's). Also the pay-out of deferred 2013-2015 variable compensation to Identified Staff and the performance and allocation of the variable compensation 2016 for Identified Staff were discussed and approved.

6. Members of the Supervisory Board

The Supervisory Board consisted of four members in 2017. Mr. G.T. Kepecs was reappointed in 2017 for another term of 4 years. A fifth member, D. Jacobovits de Szeged, was appointed as per January 1, 2018.

The terms of office of the supervisory board members are as follows:

	Year of first appointment	(Re-) Appointment	Resigns
J.A.J. Vink	2006	May 8, 2015	2018
D. Jansen Heijtmajer	2016	August 4, 2016	2020
D. Terpstra	2007	September 15, 2016	2019
G.T. Kepecs	2012	June 30, 2017	2021
D. Jacobovits de Szeged	2018	January 1, 2018	2022

The Hague, 30 April, 2018

The Supervisory Board,

J.A.J. Vink	
D. Jansen Heijtmajer	
D. Terpstra	
G.T. Kepecs	
D. Jacobovits de Szeged	

Consolidated financial statements 2017 of Aegon Nederland N.V.

Consolidated statement of financial position

	Note	31-12-2017	31-12-2016
Amounts in EUR million			
Assets			
Cash and cash equivalents	5	8.386	7.406
Investments	6	54.367	54.332
Investments for account of policyholders	7	23.574	25.292
Derivatives	8	4.177	5.384
Investments in associates	9	74	21
Investments in joint ventures	10	1.008	877
Borrowings and group loans	11	490	511
Reinsurance assets	12	16	21
Deferred expenses	13	76	84
Other assets and receivables	14	2.105	1.909
Intangible assets	15	35	60
Total assets		**94.309**	**95.896**
Equity and liabilities			
Shareholders' equity	16	6.851	5.487
Non-controlling interests	16	10	8
Group equity		**6.861**	**5.495**
Insurance contracts	17	34.382	34.904
Insurance contracts for account of policyholders	18	25.587	26.275
Savings deposits	20	9.568	8.814
Investment contracts	21	219	229
Investment contracts for account of policyholders	22	133	466
Derivatives	8	5.640	6.280
Borrowings and group loans	23	6.582	7.118
Provisions	24	39	72
Defined benefit liabilities	25	2.693	3.188
Deferred tax liabilities	26	212	284
Other liabilities and accruals	27	2.393	2.771
Total liabilities		**87.449**	**90.401**
Total equity and liabilities		**94.309**	**95.896**

Consolidated income statement

(ending 31 December 2017)

	Note	2017	2016
Amounts in EUR million			
Revenues			
Premium income	28	2.205	2.488
Investment income	29	2.173	2.134
Fee and commission income	30	329	353
Total revenues		**4.707**	**4.974**
Income from reinsurance ceded		9	-1
Results from financial transactions	31	-38	2.268
Other income	32	208	12
Total income		**4.886**	**7.254**
Charges			
Premiums to reinsurers	28	16	13
Policyholder claims and benefits	33	2.968	5.398
Profit sharing	34	13	40
Commissions and expenses	35	938	981
Impairment charges / (reversals)	36	17	12
Interest charges and related fees	37	168	191
Total charges		**4.121**	**6.636**
Income before share in profit / (loss) of joint ventures and associates and tax		**765**	**618**
Share in profit / (loss) of associates	9	4	2
Share in profit / (loss) of joint ventures	10	126	106
Income / (loss) before tax		**895**	**726**
Income tax	39	-168	-156
Net income / (loss)		**727**	**570**
Net income / (loss) attributable to the parent company		**727**	**570**

Consolidated statement of comprehensive income

(ending 31 December 2017)

Amounts in EUR million	Note	2017	2016
Net income		**727**	**570**
Items that will not be reclassified to profit or loss:			
Changes in revaluation reserve real estate held for own use	14.1	1	-
Remeasurement of defined benefit plans	25	146	-328
Income tax relating to items that will not be reclassified	26	-37	82
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	6.1	-398	-208
Equity movements of joint ventures	10	-	2
Equity movements of associates	9	-2	-1
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	6.1	-184	-189
Income tax relating to items that may be reclassified	26	139	62
Other		-28	-
Total other comprehensive income for the period		**-363**	**-579**
Total comprehensive income / (loss)		**364**	**-9**
Total comprehensive income attributable to the parent company		**364**	**-9**

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

Consolidated statement of changes in equity

Amounts in EUR million

2017

	Share capital	Share premium	Revaluation reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Group equity
At January 1	24	645	1.716	3.103	5.487	8	5.495
Net income / (loss) recognized in the income statement	-	-	-	727	727		727
Other comprehensive income / (loss)	-	-	-472	108	-363		-363
Total comprehensive income / (loss)	**-**	**-**	**-472**	**835**	**364**	**-**	**364**
Addition to share premium	-	1.000	-	-	1.000		1.000
Other movements					-	2	2
At December 31	**24**	**1.645**	**1.244**	**3.939**	**6.851**	**10**	**6.861**

2016

	Share capital	Share premium	Revaluation reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Group equity
At January 1	24	645	2.051	2.777	5.496	-	5.496
Net income / (loss) recognized in the income statement	-	-	-	570	570		570
Other comprehensive income / (loss)	-	-	-335	-244	-579		-579
Total comprehensive income / (loss)	**-**	**-**	**-335**	**326**	**-9**	**-**	**-9**
Other movements					-	8	8
At December 31	**24**	**645**	**1.716**	**3.103**	**5.487**	**8**	**5.495**

Refer to the disclosure for capital restrictions included in the statutory financial statements in note 8.2 ‘Statement of changes in equity’.

Consolidated cash flow statement

(ending 31 December 2017)

Amounts in EUR million	Note	2017	2016
Income / (loss) before tax		**895**	**726**
Results from financial transactions	31	38	-2.268
Amortization and depreciation	35	98	108
Impairment losses / (reversals)	36	16	12
Income from joint ventures	10	-126	-106
Income from associates	9	-4	-2
Other		17	-4
Adjustments of non-cash items		**39**	**-2.261**
Insurance and investment liabilities	17/21	-527	2.170
Insurance and investment liabilities for account of policyholders	18/22	-1.463	630
Defined benefit liabilities	25	39	116
Accrued expenses and other liabilities	27	-177	585
Accrued income and prepayments	14	-275	834
Shadow accounting		142	-1.567
Changes in accruals		**-2.261**	**2.768**
Purchase of investments (other than money market investments)	6	-10.356	-6.480
Purchase of derivatives	8	1.422	417
Disposal of investments (other than money market investments)	6	9.280	6.864
Disposal of derivatives	8	-1.779	-41
Net purchase of investments for account of policyholders	7	2.797	627
Additions of group loans	11	-64	-4
Redemption of group loans	11	85	57
Net change in cash collateral	27	138	-685
Cash flow movements on operating items not reflected in income		**1.523**	**756**
Tax (paid) / received	39	-215	45
Sale UMG		-208	-
Other		30	-3
Net cash flows from operating activities		**-197**	**2.031**

	Note	2017	2016
Purchase of individual intangible assets (other than VOBA and future servicing rights)	15	-26	-6
Purchase of equipment and real estate for own use	14	-17	-16
Acquisition of subsidiaries, joint ventures and associates, net of cash	9/10	-109	-33
Disposal of equipment and real estate for own use	14	1	1
Disposal of subsidiaries, joint ventures and associates, net of cash	32	172	3
Dividend received from joint ventures and associates	9/10	51	97
Net cash flows from investing activities		**72**	**47**
Additions of borrowings	23	1.312	627
Redemption of borrowings	23	-1.405	-2.929
Additions of group loans	23	250	20
Redemption of group loans	23	-687	-
Additions of entrusted savings	20	7.748	6.490
Redemption of entrusted savings	20	-6.993	-4.776
Addition to share premium	16	1.000	-
Issuances and repurchases subordinated perpetual liabilities (participations)	16	2	8
Net change in repurchase agreements	42	-122	-324
Net cash flows from financing activities		**1.105**	**-886**
Net increase / (decrease) in cash and cash equivalents		**980**	**1.193**
Cash and cash equivalents at the beginning of the year	5	7.406	6.213
Cash and cash equivalents at the end of the year	**5**	**8.386**	**7.405**

The cash flow statement is prepared according to the indirect method. Included in the net cash flows from operating activities is the increase/ (decrease) in cash and cash equivalents related to:

	2017	2016
Interest received (excluding derivatives)	1.945	2.097
Interest paid (excluding derivatives)	136	225
Interest derivatives received / (paid)	-5	-120
Dividend received	210	203

Reconciliation of liabilities arising from financing activities

For both 2017 and 2016 the net cash flows from financing activities relate only to the increase or decrease in long-term borrowings, group loans, entrusted savings, repurchase agreements and share premium payments. During the year no changes occurred due to obtaining or losing control from subsidiaries. There was no effect from foreign currencies, as all financing activities take place in EUR. Furthermore the carrying value of all balance sheet items related to financing activities are measured at amortized cost, therefore there are no effects from fair value movements or any other movements. No dividends were paid to the parent company.

Notes to the consolidated financial statements

1. General information

Aegon Nederland N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague with its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland N.V. ('Aegon Nederland') is wholly owned subsidiary of Aegon Europe Holding B.V. in The Hague. Aegon N.V., also domiciled in The Hague is the ultimate parent of the group.

Aegon Nederland (or 'the Company') and its subsidiaries ('Aegon' or 'the Group') are active in life insurance and pensions operations, savings and investment products, asset management operations, accident and health insurance, general insurance, banking operations, mortgages, pension administration and intermediary activities.

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-EU) and with Part 9 of Book 2 of the Dutch 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 2017 is provided below in note 2.1.1 'Adoption of new IFRS EU 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 comply with 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-EU 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, corporate income taxes and the potential effects of resolving litigation matters. Aegon Nederland 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 Nederland were approved by the Board of Directors and by the Supervisory Board on April 30, 2018. The financial statements will be put for adoption to the Annual General Meeting of Shareholders on April 30, 2018. The shareholders meeting can decide against adoption of the financial statements but cannot amend them.

2.1.1. Adoption of new IFRS-EU accounting standards

New standards and amendments to standards become effective at the date specified by IFRS-EU, but may allow companies to opt for an earlier adoption date. In 2017, 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:

Accounting standard / amendment / interpretation	**IASB effective date**	**Endorsed by EU**	**Impact for Aegon**
IAS 7 Amendment Disclosure initiative	January 1, 2017	Yes	Low
IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	Yes	Low
Annual improvements 2014-2016 Cycle 'IFRS 12 Disclosure of interests in other entities'	January 1, 2017	Yes	Low

2.1.2. Future adoption of new IFRS-EU accounting standards

The following standards and amendments to existing standards, published prior to January 1, 2018, were not early adopted by Aegon Nederland, but will be applied in future years:

Accounting standard / amendment / interpretation	**IASB effective date**	**Endorsed by EU**	**Impact for Aegon**
IFRS 9 Financial instruments, including the separate amendment applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	January 1, 2021 (This is the effective date of the amendment; Aegon intends to make use of the amendment)	Yes	See below for comments
IFRS 15 Revenue from Contracts with Customers, including Clarifications to IFRS 15 as issued in 2016	January 1, 2018	Yes	See below for comments
IFRS 16 leases	January 1, 2019	Yes	See below for comments
IFRS 17 Insurance contract	January 1, 2021	Not yet	See below for comments
Annual improvements 2014-2016 'IFRS 1, 'First time adoption of IFRS', regarding IFRS 7, IAS 19 and IFRS 10, IAS 28 Investments in associates and joint ventures	January 1, 2018	Yes	Low
IFRS 2 Clarifications of Classification and Measurement of Share Based Payments Transactions	January 1, 2018	Yes	Low
IAS 40 Investment property, amendments regarding the transfer of property	January 1, 2018	Not yet	Low
IFRIC 22 Foreign currency transactions and advance consideration	January 1, 2018	Not yet	Low
IFRIC 23 Uncertainty over Tax Treatments	January 1, 2019	Not yet	Low

IFRS 9 Financial Instruments

The IASB issued the complete version of IFRS 9 Financial Instruments in July 2014 which was endorsed by the European Union in November 2016. 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 designated 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, on May 18, 2017, the IASB published the final version of the IFRS 17 – Insurance Contracts standard. Prior to its finalization, the IASB issued an amendment to IFRS 4 – Insurance Contracts (the predecessor standard to IFRS 17) that provides for a qualifying insurer a temporary exemption that permits, but does not require, the insurer to apply IAS 39 Financial Instruments: Recognition and Measurement rather than IFRS 9 for annual periods beginning before January 1, 2021 (i.e., a temporary exemption of IFRS 9). The objective of the amendment is to address the temporary accounting consequences of the different effective dates of IFRS 9 and IFRS 17. This amendment was endorsed by the European Union in November 2017.

In order for an entity to be eligible for the temporary exemption it must have liabilities connected with insurance activities whose carrying value comprises either greater than 90% of the total carrying value of all liabilities or less than or equal to 90% but greater than 80%, and the insurer does not have significant activities unrelated to insurance. Aegon Nederland performed this analysis, and determined that 84% of its liabilities are connected to insurance activities. The 16% non-insurance activity related liabilities are mainly caused by the banking activities of subsidiary Aegon Bank N.V. and mortgage activities of subsidiary Aegon Hypotheken B.V. As a consequence Aegon Nederland assessed other quantitative (%equity, %net income, %employees) and qualitative factors (such as that the regulatory status of parent company is insurer and falls under insurance supervision of DNB). Based on that assessment Aegon Nederland concluded that it meets the requirements for the temporary exception. As a result, Aegon Nederland will not implement IFRS 9 until January 1, 2021.

As Aegon Nederland intends to defer the application of IFRS 9 until 2021, the full impact of the standard is not yet clear, however an initial impact assessment resulted in the expectation that it will have a significant impact on shareholders' equity, income and/or other comprehensive income and disclosures. An implementation project has started in 2017 and will be combined with the implementation of IFRS17 Insurance Contracts.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard was endorsed by the European Union in September 2016. IFRS 15 has replaced 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. In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Transition Resource Group (TRG).

The amendments are intended to clarify the requirements in IFRS 15, not to change the standard. IFRS 15 and the amendments will be effective for Aegon Nederland 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 Nederland has evaluated the impact that adoption of this standard is expected to have on the financial statements and came to the conclusion that this impact will be very limited because insurance revenue is not in scope of IFRS 15 and because the other types of revenue are already compliant with this standard. Since IFRS 15 will have very limited impact on the financial statements, Aegon Nederland chose to apply the modified retrospective approach as transition method.

IFRS 16 Leases

IFRS 16 Leases which replaces IAS 17 has been issued by the IASB In January 2016 and endorsed by the European Union in October 2017. It will be mandatorily effective for annual reporting periods beginning on or after January 1, 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Aegon Nederland is evaluating the impact that adoption of this Standard is expected to have on the financial statements.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 Insurance Contracts in May 2017. The Standard will replace IFRS 4, which was intended as an interim solution and allowed insurers to continue to use accounting principles that they had applied prior to the initial adoption of IFRS. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participating features issued. The objective of the Standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information should provide users of financial statements with a basis to assess the effects that the contracts have on the financial position, financial performance and cash flows of the insurer. The Standard also specifies presentation and disclosure requirements to enhance comparability between insurance companies.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021. The Standard represents a fundamental change to current financial reporting and the implementation effort is expected to be significant. Early adoption of the standard is therefore not expected. An implementation project was started soon after the publication of the new Standard. Currently no choices have been made as to the accounting policy options provided in IFRS 17, however, it is expected that the impact of the initial application on Aegon Nederland’s financial statements is significant.

2.2. Basis of consolidation

2.2.1. Investment funds

Investment funds managed by Aegon Nederland in which Aegon Nederland holds an interest are consolidated in the financial statements if Aegon Nederland 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 Nederland in the fund are considered, regardless of whether the financial risk related to the investment is borne by Aegon Nederland or by the policyholders.

In determining whether Aegon Nederland 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 Nederland 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 investments of Aegon Nederland;
- Aegon Nederland's investments held for policyholders;
- Guarantees provided by Aegon Nederland 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 Nederland concluded, for all investment funds, that it does not exercise control, as Aegon Nederland 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.
Reference is made to 2.7 Investments for account of policyholders.

2.2.2. Subsidiaries

The consolidated financial statements include the financial statements of Aegon Nederland and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Nederland has control. Aegon Nederland controls an entity when Aegon Nederland 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 Nederland 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 Nederland, which is consistent with IFRS. Transactions between group companies are eliminated. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements. 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 Nederland 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 Nederland 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.

2.2.3. 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 i.e. 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 Nederland 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 Nederland 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 Nederland.

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

2.6. Investments

General account investments comprise financial assets, excluding derivatives as well as investments in real estate.

2.6.1. Financial assets, excluding derivatives

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

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 Nederland 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 Nederland. The difference between sale and repurchase price is treated as investment income. If Aegon Nederland subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

Collateral

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

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 Nederland 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. 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. Appraisals are based on market guidelines such as International Valuation Standards, Uniform Standards of Professional Appraisal Practice or guidelines issued by the Investment Property Databank. 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 macroeconomic and microeconomic 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 Nederland:

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. The object will be visited and also the value-determining factors are considered. Value drivers in a full valuation include market information, legal and constructional 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 after which 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, through 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. Upon completion, 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 policyholders

Investments held for account of policyholders consist of investments in financial assets, as well as investments in real estate. Investment return on these assets is passed on to the 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.

For Aegon's life business, due to changes in structure of the Aegon Staatsleningen Fund, the related investments were transferred to the General Account at their fair value of EUR 804 million, with at the same moment recognition of a guarantee provision equal to the difference between the fair value of those investments and their carrying amount. The related liabilities have also been reclassified to own risk for the same amount. This transfer did not result in any equity impact or a 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 Nederland 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 modelling, 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 Nederland 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 Nederland currently 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 income statement, 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 income statement over the remaining duration of the original hedge or recognized directly when the hedged item is derecognized.

Aegon Nederland 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 Aegon Nederland 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 Nederland 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 Nederland 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 Nederland. 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 Nederland 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 Nederland and the joint ventures are eliminated to the extent of the interest in the entity of Aegon Nederland, 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

Associates are all entities over which Aegon Nederland has significant influence but not control. Significant influence generally results from a shareholding of 20% or more of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

- Representation on the board of directors
- Participation in the policy making process
- Interchange of managerial personnel

Entities over which Aegon Nederland 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 Nederland 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 Nederland 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 Nederland 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 Nederland. 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 Nederland 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 Nederland and the associate are eliminated to the extent of the interest in the entity of Aegon Nederland, 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 Nederland in order to receive compensation for claims/benefits incurred on contracts written by Aegon Nederland (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 Nederland 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 contractual term of the underlying contracts.

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. DPAC 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 Nederland enters into a reinsurance transaction except for reinsurance transactions that are entered into as part of a plan to exit a business. When Aegon enters into a reinsurance contract as part of a plan to exit a business, an immediate loss is recognized in the income statement. Upon reinsurance, Aegon Nederland 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 contractual term of the underlying contracts. When losses on buying reinsurance are deferred, the amortization is 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 real estate held for own use, 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. The accounting for real estate held for own use is described in note 2.6 ‘Investments’.

2.14. Intangible assets

2.14.1. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and is measured as the positive difference between the acquisition cost and the Aegon Nederland's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary is disposed.

2.14.2. Value of business acquired

When a portfolio of insurance contracts or insurance agency activities 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 useful life of the acquired contracts, based on either the expected future premiums, revenues or the expected gross profit margins. The amortization period and pattern are reviewed at each reporting date; any change in estimates is recorded in the income statement. For all products, VOBA, in conjunction with deferred policy acquisition costs (DPAC) where appropriate, is assessed for recoverability at least annually and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test (or LAT) for each reporting period. When unrealized gains or losses arise on available-for-sale assets, VOBA is adjusted to equal the effect that the realization of the gains or losses (through a sale or impairment) would have had on VOBA. The adjustment is recognized directly in shareholders' equity. VOBA is derecognized when the related contracts are settled or disposed of.

VOBA with respect to insurance agency activities is amortized over the duration of the related contracts, taken the lapse rate in the portfolios into account. This is presented as 'VOBA intermediary portfolios.

2.14.3. Software and other intangible assets

Software and other intangible assets are recognized to the extent that; 1) the assets can be identified, 2) are controlled by Aegon Nederland, 3) are expected to provide future economic benefits and 4) can be measured reliably. Aegon Nederland does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items. Software and other intangible assets are carried at cost less accumulated amortization and impairment losses. The asset is amortized over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The amortization period and pattern are reviewed at each reporting date, with any changes recognized in the income statement. An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.15. 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 Nederland'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. Refer to note 15 'Intangible assets' for more details.

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. 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 which change indicates that the cost of the investment in the equity instrument may not be fully 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 Nederland 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 Nederland’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 Nederland’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 Nederland’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, relates to capital contributions which have occurred since incorporation without issuing new shares. The revaluation reserves comprise unrealized gains and losses on available-for-sale investments and on real estate held for own use, net of tax. Upon sale of available-for-sale securities, the realized result is recognized through the income statement. Upon sale of real estate held for own use, the cumulative revaluation is taken direct to retained earnings. In the event of impairments, the unrealized loss is recognized through the income statement.

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 Nederland 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 Nederland applies in general accounting policies for insurance liabilities to the extent that it was allowed under Dutch Accounting Principles. If any changes are made to current accounting policy for insurance contracts, these will be in accordance with IFRS 4.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by Aegon Nederland 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 Nederland 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 Nederland 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 Nederland 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 premiums have started being charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled. Substantially modified contracts are accounted for as an extinguishment of the original liability and the recognition of a new liability.

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 Nederland's point of view, the date of the offer would be the date Aegon Nederland 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 Nederland, 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, are considered when establishing the insurance liabilities. Where Aegon Nederland has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.17.4 '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 Nederland 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 Nederland, 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. Non-life insurance contracts

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

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

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

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

The insurance liability for periodic payments ('Arbeidsongeschiktheidsverzekering' (AOV)) is calculated on an 'item by item' basis. For AOV Individual contracts, the calculation takes place according to the 'AOV-2000' principles, using the 'KAZO' method, discounting the liability at a 3% discount rate. With respect to AOV group contracts as well as the WIA ('Wet Inkomen en Arbeid') contracts, the claims regarding long-term sick leave (>2 years) are calculated on an 'item by item' based on empirical data and information from the industry and discounted with Aegon Schadeverzekering's LAT curve. The LAT curve is constructed using 6 months swaps until the last liquid point of 30 years. After the last liquid point, the forward rate converges to a UFR of 4.25% in ten years. A liquidity premium is applied to the curve. At the end of 2017, this liquidity premium was 3 basis points. The liquidity premium is held level for 20 years. After 20 years the liquidity premium decreases linearly in 20 years to zero.

2.17.7. Liability Adequacy Testing

Aegon Nederland performs an aggregate Liability Adequacy Test for both life and non-life insurance contracts together.

Liability Adequacy Testing with respect to life insurance contracts

At each reporting date, the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of VOBA and DPAC, is assessed using a liability adequacy test. The liability is considered to be "adequate" if the current estimate of all contractual future cash flows is less than the insurance liability plus the difference between carrying value and fair value of certain investments.

All tests performed within Aegon Nederland 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, stochastic modelling and future claim handling costs.

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.

The estimates used in de liability adequacy test, are based on the following items:
- For the liability adequacy test Aegon Nederland uses mortality tables that take into account expected future changes in life expectancy (the Aegon prospective mortality table). Aegon Nederland also uses this prospective table in its financial statements.
- The liability adequacy test uses a swap curve with a liquidity spread, and including an ultimate forward rate (UFR), to discount future cash flows, whilst the insurance liabilities on Aegon Nederland statement of financial position are determined using discount rates as contractually agreed, mainly 3% and 4%. The liquidity spread based on Aegon N.V. is deemed suitable for Aegon Nederland.
- 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.

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 through the revaluation reserve. See note 3.3 ‘Valuation of assets and liabilities arising from life insurance contracts’ for more information on the applied interest yield and mortality tables.

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

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

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

2.18. Savings deposits

Savings deposits are stated at amortized cost (net of accrued interest). Accrued interest is recognized in the consolidated statement of financial position under 'other liabilities and accruals'. The balances are largely repayable on demand. The initial valuation of this item reasonably approximates fair value.

2.19. Investment contracts

Contracts issued by Aegon Nederland that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to Aegon Nederland are accounted for as investment contracts. Depending on whether Aegon Nederland 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 and are measurement at amortized cost.

2.20. 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.

In 2017, the investment contracts for account of policyholders decreased mainly due to derecognition of a part of the portfolio of Aegon PPI. Based on the changes in the risks associated to that part of the portfolio, it was concluded that Aegon PPI no longer controls that part of portfolio which resulted in the derecognition.

2.21. Borrowings and group loans

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. Borrowings and group loans are derecognized when Aegon Nederland's obligation under the contract expires or is discharged or cancelled.

2.22. 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 cost 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 fulfil it.

Restructuring provisions
Restructuring provisions comprise the direct expenditures arising from the restructuring, which are those that are both:

(a) necessarily entailed by the restructuring; and
(b) not associated with the ongoing activities of Aegon Nederland.

The expenditures included in the restructuring provision are mainly employee expenses and these are based on the social plan. For Aegon Nederland, this means that a reassignment period of up to six months for surplus staff has been taken into account and that redundancy payments will be made to all surplus staff who cannot be relocated, irrespective of whether they find a new job within the reassignment period.

Provisions for commissions
This provision consists of 'unearned' commissions. These commissions have been received, but the activities to earn the commissions are still to be performed. Part of this provision is also the possible future repayment of upfront fees received.

2.23. Assets and liabilities relating to employee benefits

2.23.1. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee benefits expected to be settled within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which the service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

2.23.2. Post-employment benefits

Aegon Nederland has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when Aegon Nederland has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset (or liability) is recognized to the extent that the contribution paid exceeds (or fall short of) the amount due for services provided.

Defined benefit plans

<u>Measurement</u>
The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. In measuring the defined benefit obligation Aegon Nederland uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables.

The benefits are discounted using an interest rate based on the market yield for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future wage inflation, mortality rates and price inflation. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

Plan improvements (either vested or unvested) are recognized in the income statement at the date when the plan improvement occurs.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the creditors of Aegon Nederland. They are measured at fair value and are deducted from the defined benefit obligation in determining the amount recognized on the statement of financial position.

Assets held by Aegon Nederland backing the retirement benefits do not meet the definition of plan assets and as such were not deducted from the defined benefit obligation. Instead, these assets are recognized as general account assets. Consequently, the expected return on these assets also does not form part of the calculation of defined benefit expenses.

<u>Income statement recognition</u>
The costs of the defined benefit plans are determined at the beginning of the year and comprise the following components:

- Current year service cost which is recognized in the income statement; and
- Net interest on the net defined benefit liability (asset) which is recognized in the income statement.

Remeasurements of the net defined benefit liability (asset) which are recognized in other comprehensive income are revisited quarterly. Remeasurements of the net defined benefit liability (asset) shall not be reclassified to profit or loss in a subsequent period.

Any employee contributions are deducted from the current year service cost. Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the applicable discount rate. Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest expenses on the defined benefit obligation. Whereby interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the applicable discount rate. The difference between the interest income on plan assets and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset) comprise of:

- Actuarial gains and losses;
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits.

<u>Settlements</u>
Gains or losses on curtailments or settlements of a defined benefit plan comprise of the difference between:

- The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
- The settlement price, including any plan assets transferred and any payments made directly by Aegon Nederland in connection with the settlement.

Aegon Nederland recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs in the income statement.

2.23.3. Share-based payments

Aegon Nederland operates share-based plans applicable to the Aegon N.V. Group that entitle employees to receive equity instruments over common shares of the parent company Aegon N.V. All of the share-based plans operated are settled by Aegon Nederland in shares of Aegon N.V. or in cash and are therefore recognized as cash-settled share based payment transactions.

2.24. Tax assets and liabilities

Corporate income tax assets and liabilities are amounts payable to and receivable from Aegon N.V., since Aegon N.V. is the head of the tax group. Aegon Global Investment Fund B.V. is not part of the group of companies included Aegon N.V. tax group. Optas Pensioenen N.V. is exempt from paying corporate income tax.

2.24.1. Current tax assets and liabilities

Corporate income 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 Nederland 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 Nederland 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.

2.24.2. 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 deferred 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 each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon Nederland's deferred tax position at each reporting period 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 opportunities it can utilize to increase the likelihood that the tax assets will be realized. These opportunities are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectations of Aegon Nederland 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.

2.24.3. 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 Nederland 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.

2.25. 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.

2.26. 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.

2.27. Premium income

Gross premiums, including recurring and single premiums, from life and non-life insurance 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 instalment payments and additional payments by the policyholders towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense. 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.

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

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

2.28. 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.

2.29. Fee and commission income

Fees and commissions from investment management services and mutual funds, services where Aegon Nederland 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.

2.30. Income from reinsurance ceded

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.

2.31. Policyholders claims and benefits

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

2.32. Results from financial transactions

Results from financial transactions include:

2.32.1. 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.

2.32.2. 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.

2.32.3. 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.

2.32.4. 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.

2.32.5. 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.

2.32.6. Net foreign currency result

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

2.33. Profit sharing

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

2.34. Commission and expenses

Commission, staff and administration expenses incurred are allocated to the period to which they relate. 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 2.14.2. ‘Value of business acquired’.

2.35. Impairment charges/(reversals)

Impairment charges and reversals include impairments and reversals on investments in financial assets, impairments and reversals on the valuation of insurance assets and other non-financial assets and receivables. Impairment of deferred policy acquisition costs is included in note Impairment charges.

2.36. 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.

2.37. Corporate income tax

Corporate 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.

2.38. 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 fulfilment 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 Nederland is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where Aegon Nederland 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.

2.39. Events after the reporting period

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 reporting 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. Those estimates are inherently subject to change and actual results will not could differ materially 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 (please refer to paragraph 2.12), value of business acquired and other purchased intangible assets (please refer to paragraph 2.14), goodwill (please refer to paragraph 2.14), policyholder claims and benefits (please refer to paragraph 2.31), insurance guarantees (please refer to paragraph 2.17), pension plans (please refer to paragraph 2.23), income taxes (please refer to paragraph 2.24) and the potential effects of resolving litigation matters (please refer to paragraph 2.26). Accounting policies that are critical to the financial statements presentation and that require complex estimates or significant judgment are described in the following sections.

3.1. Going concern

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

For Aegon's life business the mortality tables and experience factors during 2017 have been updated. This resulted in a decrease of the fair value of its longevity derivative of EUR 17 million, an increase of the fair value of its longevity reinsurance contract of EUR 8 million and a decrease of the guarantee provision of EUR 39 million. All amounts are before tax.

In addition, Aegon's life business updated the surrender and paid up rates by adding the experience for these assumptions from 2016. This resulted in an increase of the guarantee provision of EUR 33 million before tax.

For Aegon's non-life business the model has been refined during 2017 for calculating the IBNR for certain products related in the WIA provision. This resulted in a decrease of the WIA provision of EUR 10 million before tax.

In addition, Aegon non-life business updated the assumption for unknown beneficiaries in the WIA provision based on improved source data in 2017. It has been established that for claim provisions older than 6 years from the measurement date in 2017, it is reasonably foreseeable that no further claims can be expected. This resulted in a decrease of the provision of EUR 18 million before tax.

Other assumption updates for Aegon non-life business include new available disability data, updated wage information and policyholders own risk percentage. These resulted in an additional decrease of the WIA provision of EUR 9 million before tax. An updated assumption for the return of premiums for non-claiming policyholders for AOV resulted in an increase of the AOV provision of EUR 3 million 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. Unless shadow loss recognition is applied refer to 2.17.7 'Liability Adequacy Testing'.

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

The liability adequacy test uses a discount rate which converges linearly in 10 years to an Ultimate Forward Rate of 4.25% (2016: 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%. Insurance liabilities for risk of policyholders are generally shown at the balance sheet value of the related investments.

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 acquisition 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 irrecoverability.

Actuarial and economic assumptions

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

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 Nederland uses best estimate assumptions regarding mortality (which take into account expected future changes in life expectancy: the Aegon prospective mortality table), morbidity, expenses, lapse, inflation and lapse. In 2017 several model refinements have taken place as part of the regular cycle of methodology and assumption setting. Main changes include an update of the population mortality methodology, mortality experience factors, maintenance expense assumption update and related model update, and investment expense assumption update. The impact of these changes was a decrease of the LAT margin of approximately EUR 102 million and a similar negative impact on OCI before tax through the application of shadow accounting.

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

Starting point for the future operational costs is the current level of expenses. For the projection of the operational costs a split is made between fixed and variable expenses. Further it is assumed that a part of the portfolio will be outsourced as soon as outsourcing is more attractive.

Lapses

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor 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, and typically in the third quarter of the calendar year, based on historical observable market data, including market transactions such as acquisitions and reinsurance transactions, anticipated trends and legislative changes. 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.

3.4. Valuation of liabilities arising from non-life insurance contracts

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

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

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

Starting point for the future operational costs is the current level of expenses. For the projection of the operational costs a split is made between fixed and variable expenses. Further it is assumed that a part of the portfolio will be outsourced as soon as outsourcing is more attractive.

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

3.5. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Nederland 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 knowledgeable and willing market participants that are independent of each other and able to enter into the transaction 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 Nederland 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 Nederland 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 Nederland 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 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 Nederland, 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 modelled). 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.

3.6. Goodwill

Goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The recoverable amount is the higher of the value in use and fair value less costs to sell for a cash-generating unit. Impairment testing requires the determination of the value in use or fair value less costs for each of the identified cash generating units of Aegon Nederland. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.

3.7. Valuation of defined benefit plans

The liabilities or assets recognized in the statement of financial position in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets. Assets held by Aegon Nederland backing the retirement benefits do not meet the definition of plan assets and as such were not deducted from the defined benefit obligation. Instead, these assets are recognized as general account assets.

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future wage inflation and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

3.8. Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forward 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 Nederland 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 Nederland 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.

3.9. Recognition of provisions

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

4. Risk management

4.1. Governance

The main objective of the risk management structure at Aegon Nederland is to protect stakeholders, including customers, shareholders and employees, against ongoing obstacles to achieving their aims. The Board of Directors 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 Nederland and each of its insurance subsidiaries have its own Board of Directors and Supervisory Board. Aegon Bank also has its own Board of Directors and a Supervisory Board. The Board of Directors of Aegon Nederland participates in the Board of Directors of its insurance subsidiaries and in the Supervisory Board of its banking subsidiary. Reports are made to the shareholder and the regulator in accordance with the terms of the license.

4.2. Capital management and solvency

4.2.1. Insurance activities

<u>Introduction</u>
As from January 1, 2016 the Solvency II regulatory framework was introduced.

Please note that numbers and ratios related to Solvency II as disclosed in this paragraph represent Aegon Nederland's estimate and are not final until filed with the regulator and subject to supervisory review. Aegon Nederland's factor for the loss absorbing capacity of deferred taxes is 75%. This factor is assessed on a quarterly basis, following DNB guidance, while monitoring effects of upcoming corporate tax changes in the Netherlands and LAC DT related proposals in the SII regulation consultation paper of EIOPA.

The Solvency II capital ratios of Aegon Nederland do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon Nederland in the past as the potential liability cannot be reliably quantified at this point.

<u>Strategic importance</u>
Aegon Nederland's approach towards capital management plays a vital role in supporting the execution of Aegon Nederland's strategy. Aegon Nederland's capital management priorities include the shift of capital to products that offer higher growth prospects and return prospects, the shift from capital intensive spread business to capital light fee business and from defined benefit plans to defined contribution plans for our clients.

<u>Management of capital</u>
Disciplined risk and capital management support Aegon Nederland's decisions in deploying the capital that is generated in Aegon Nederland's businesses. Aegon Nederland balances the funding of new business growth with the funding required to ensure that Aegon Nederland's obligations towards policyholders are always adequately met.

Aegon Nederland's goal is to maintain a strong financial position and be able to sustain losses from adverse business and market conditions. The company's overall capital management strategy is based on adequate solvency capital, capital quality, and the use of leverage.

Aegon Nederland’s Enterprise Risk Management framework ensures that Aegon Nederland and its subsidiaries are adequately capitalized and that Aegon Nederland’s obligations towards policyholders are always adequately met. As a specific part of this larger framework, Aegon Nederland’s capital management framework builds on a set of key pillars: the use of internal target capital management zones and supported by robust risk and capital monitoring processes that timely triggers and escalates interventions if and when needed to ensure that capital is always being managed towards these internal target ranges and is prevented from falling below the minimum regulatory capital requirements.

Adequate capitalization

The introduction of Solvency II on January 1, 2016, meant a change in the regulatory capital requirements in EU-domiciled legal entities and therefore had an impact on the capitalization levels used to assess capital adequacy of Aegon Nederland. Aegon Nederland has updated its target capitalization levels under its capital management framework accordingly. During 2016 and 2017 all regulated entities within Aegon Nederland complied with externally imposed minimum capital requirements.

The capitalization of the Aegon Nederland and its operating units is managed in relation to the most stringent of local regulatory requirements, rating agency requirements and/or self-imposed criteria. Aegon Nederland manages its Solvency II capital in relation to the required capital. Under Aegon Nederland’s capital management framework the own funds are managed such that the Group Solvency II ratio remains within the target range of 150% - 190%. This target range has been updated in Q3 2017 (previous target range: 130% - 150%) in line with a revision of Aegon Nederland’s group capital management policy.

In the following table a reconciliation between the group equity under IFRS equity and the own funds under Solvency II is presented.

	31-12-2017*	31-12-2016
Shareholders' Equity (IFRS)	6.851	5.487
Revaluations	-367	-431
Available own funds	6.484	5.056

*The available own funds for 2017 is an estimate, is not final until filed with the regulator and subject to supervisory review. Aegon Bank is included in the calculation of the own funds.

The increase of available own funds of Aegon Nederland is mainly due to the capital contribution of EUR 1.000 million and the sale of UMG.

The Solvency II revaluations stem from the difference in valuation between IFRS-EU and Solvency II frameworks, which can be grouped into two categories:

- Items that are not recognized under Solvency II. The most relevant examples of this category include Goodwill, DPAC and other intangible assets;
- Items that have a different valuation treatment between IFRS-EU and Solvency II. Solvency II is a market consistent framework hence all assets and liabilities are to be presented at fair value while IFRS-EU also includes other valuation treatments in addition to fair value. The most relevant examples of this category include Loans and Mortgages, Reinsurance Recoverables, Deferred tax assets balances and Technical provisions.

Minimum regulatory solvency requirements

Insurance laws and regulations contain minimum regulatory capital requirements of 100% Solvency Capital Requirement (SCR) for insurance companies in the European Union. For insurance companies in the European Union, Solvency II also defines a lower capital requirement, the Minimum Capital Requirement (MCR). An irreparable breach of the MCR would lead to the withdrawal of the insurance license.

With the introduction of Solvency II for EEA countries, Aegon monitors these minimum regulatory capital requirements as the level around which the regulator will formally require management to provide regulatory recovery plans. For insurance companies in the European Union this is set at 100% SCR.

During 2017, Aegon Nederland and its main subsidiaries continued to comply with the minimum regulatory solvency requirements, driven by the fact that Aegon Nederland's internal target capital levels are well above 100% SCR levels.

Capital management

Aegon Nederland is subject to legal restrictions on the amount of dividends it can distribute to its shareholder. Refer to the disclosure for capital restrictions included in the statutory financial statements in note 8.2 'Statement of changes in equity'. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

The ability of Aegon Nederland's main subsidiaries, principally insurance companies, to pay dividends to Aegon Nederland is constrained by the internal thresholds that Aegon set to adequately capitalize its subsidiaries. These levels exceed the levels set by DNB and governed by DNB. Based on the capitalization level of the subsidiary, DNB is able to restrict and/or prohibit the transfer of dividends to Aegon Nederland. In addition, the ability of subsidiaries to pay dividends to the holding company can be constrained by the need for these subsidiaries to have sufficient shareholders' equity as determined by law.

The capitalization level and shareholders' equity of the subsidiaries can be impacted by various factors (e.g. general economic conditions, capital markets risks, underwriting risk factors, changes in government regulations, legal and arbitrational proceedings). To mitigate the impact of such factors on the ability of subsidiaries to pay dividends, the subsidiaries hold additional capital in excess of the levels required by DNB, which is reflected in Aegon Nederland's internal target capitalization ranges.

The target range for the insurance subsidiaries of Aegon Nederland is set at 145 – 175% for Aegon Levensverzekering and Aegon Schadeverzekering, 165%-235% for Optas and 155%-205% for Spaarkas. As per December 31, 2017, the actual solvency level of the subsidiaries is above the target range. In 2016, all target ranges were 130%-150%.

Capital quality

All capital of Aegon Nederland qualifies as unrestricted Tier 1 capital. Available own funds are equal to eligible own funds.

4.2.2. Banking activities

Aegon Nederland's banking activities are executed via its subsidiary Aegon Bank N.V. Pursuant to guidance issued by the Dutch Central Bank, the level of capital is subject to certain requirements. Aegon Bank's capital is reviewed against its on-balance sheet and off-balance sheet assets. These assets are weighted according to their risk level. The minimum total capital ratio (also known as the BIS ratio) is 8%. Due to the introduction of CRD IV the CET1 ratio is considered a better measure for capital management purposes than the BIS ratio. During the year Aegon bank fully complied with the required CET 1 ratio. At yearend the CET 1 ratio amounts to 20.4% (2016: 20.4%).

4.3. Product information

4.3.1. Life & Savings

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

Products

Endowment insurance

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

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

Minimum interest guarantees exist for all generations of accumulation products written, except for universal life products, for which premiums are invested solely in equity funds. Older generation products contained a 4% guarantee when sold. In 1999, the guarantee for new products decreased to 3%; and in 2013, the guarantee on new products was reduced to 0%.

Various profit-sharing mechanism exist. Bonuses are either paid in cash (usually for a pension, as described below) or used to increase the sum insured. A common form of profit sharing is to set bonus levels by reference to external indexes based on pre-defined portfolios of Dutch government bonds. The bonds included in the portfolios have different remaining maturities and interest rates. Together they are considered an approximation of the long-term rate of return on high-quality Dutch financial investments.

Term and whole life insurance

Term life insurance pays out death benefits should the insured die during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of when this occurs. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted at the request of the policyholder. Term life insurance policies do not include profit-sharing arrangements. Part of the whole life insurance portfolio has profit-sharing features, which are based on external indexes or the return of related assets.

Annuity insurance

Annuity insurance includes products in the accumulation phase and products in the de accumulation phase. Pay-out 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 the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%. Interest rebates are given on both single and regular premium annuity insurance, and may be based on a portfolio of Dutch government bonds – although other calculation benchmarks may also be applied. There are also profit-sharing schemes set by reference to external indexes based on pre-defined portfolios of Dutch government bonds.

Variable unit-linked products

These products have a minimum benefit guarantee, except for those premiums invested in equity funds. The initial guarantee period is ten years. Tontine plans are unit-linked contracts with a specific bonus structure. At the end of the year in which the insured dies, the policy balance is distributed to surviving policyholders that belong to the same tontine series, rather than to the policyholder's estate. A death benefit is paid to the dependents in the event that the policyholder dies before the policy matures. Tontine policyholders may invest premiums in a number of Aegon funds. Aegon Nederland manages tontine plans, but no longer sells them.

Mortgage loans

At present, Aegon Nederland mostly offers 'annuity mortgages'. Before 2013, Aegon Nederland also offered interest-only, unit-linked and savings mortgage loans, and is continuing to do so for existing mortgage loans that are being renegotiated. Mortgage loans are partly funded externally. Besides residential mortgage-backed securities in Saecure – Aegon's Dutch residential mortgage-backed securities program and private placements, the mortgage production for fee based business is concentrated in the Dutch Mortgage Fund (DMF). DMF has specifically been created, in cooperation with Aegon Asset Management, to provide third-party funded mortgages. DMF offers institutional investors the ability to invest in Dutch residential mortgages granted by Aegon Nederland for the account and risk of DMF. The fund pays Aegon Nederland a fee for granting and managing the mortgages. The fee based business complements the spread business in which the mortgages are hold by Aegon Nederland for own account and risk.

Savings and Banking products

Aegon Bank aims to achieve its vision and ambition through two business units: Aegon Bank and Knab.

Aegon Bank focuses on the ‘income’ and ‘housing’ market, together with seeking to reinforce the Aegon Nederland’s-wide pensions offering. Customers are increasingly having to make provision for their current and future income and wealth since the government changed the rules for pension provisions.

The bank offers clear, simple and high quality products. These include both savings products focused on security, and investment products focused on a suitable risk/return profile that fits the customer’s need and risk appetite. Processes are designed in such a way as to provide the maximum benefit to customers, and customer service is based on the principles of easy access, speed, first time right, convenience, transparency and understanding.

Aegon Bank’s focus is on customers whose income and wealth is in the middle-market, in line with Aegon Nederland’s target group. Products are distributed directly to our customers. For more complex ‘advice’ products, independent financial advisers continue to be a very important distribution channel for Aegon Bank. Aegon Bank’s activities mainly focus on ‘Banksparen’ products’. 'Banksparen' is a tax-deferred savings product in which amounts are deposited in a 'locked' bank account. The amount saved is available after a certain period of time for specific purposes such as for a supplementary pension or paying off a mortgage.

Knab aims to be the most customer-oriented bank in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. It reflects the core of Aegon’s purpose, offering customers both insight and an overview of their finances through its financial planning tools and alerts. Furthermore, Knab offers a wide range of banking and investment products with a focus on wealth accumulation and payment services.

Investment contracts

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

4.3.2. Pensions

The Pensions business provides a variety of pension products to pension funds and companies both full service contracts and low cost subscriptions.

Products

Aegon Nederland provides full-service pension solutions, administration-only services and life or disability insurances to company and industry pension funds, large companies and owners of small and medium-sized companies.

Separate account group contracts are large group contracts that have an individually-determined asset investment underlying the pension contract. For older generation products, a guarantee consists of profit sharing with a contractual interest rate of 3% or 4%. At present, the contracts offered to clients hold a guarantee of 3% or market interest rate, and Aegon always relates guarantee cost to the current market interest rate. If profit sharing turns into a loss, the minimum guarantee becomes effective, but the loss in any given year is carried forward to be offset against future surpluses. In general, the guarantee is dependent on the life of the insured in order that their pension benefit is guaranteed. Some large group contracts also receive part of the technical results for mortality risk and disability risk. The contract period for these types of contracts is typically five years and the tariffs, cost loadings and risk premiums are generally fixed over this period.

Aegon Nederland also offers products for small and medium-sized companies, both defined benefit and defined contribution products on a subscription basis. These products reduce complexity and enable Aegon to adapt the tariffs, cost loadings and risk premiums annually. Customers also have the opportunity on an annual basis to decide as to whether they wish to continue with their subscription. An increasing group of customers are currently becoming more interested in these low cost and flexible solutions which results in a significant flow from separate account and other 5-year contracts to subscription products.

These subscription products include an all-in defined benefit product with guaranteed benefits. The expected profit for the customer and anticipated investment returns are taken into account in the pricing of the product. Customers may contribute funds for future pension increases to a separate account. Next to defined benefit subscriptions Aegon Nederland also offers defined contribution products on a subscription basis. Profit sharing is based on investment returns on specified funds. All positive and negative risks, such as investment risk and longevity risk, are attributed to the employees.

Defined benefit group contracts or defined benefit subscriptions both provide a guarantee on the benefits paid. The longevity risk therefore lies with Aegon Nederland.

A decrease in the number of company and industry pension funds in the Netherlands is continuing. By law, the assets and liabilities of a terminated pension fund must be transferred to another pension provider. Aegon Nederland offers a pension fund buy-out product for terminating pension funds. It takes on the guaranteed or non-guaranteed liabilities, with or without annual pension increases, and receives a lump-sum premium upfront. All risks related to the transferred benefits are carried by Aegon Nederland. Current market conditions lead to significantly fewer buy-outs in de Dutch market than in recent years.

On December 22, 2015, legislation was passed that enables companies to set up 'Algemeen Pensioen Fonds' (General Pension Fund). On June 21, 2016, Aegon launched the first such fund called ‘Stap’ (a separate legal entity), catering to pension funds that no longer wished to continue on an individual basis due to high legal requirements and costs. Stap offers pension solutions to clients with which no guarantees are provided, and the investment benefits lie with the participants. Aegon Nederland provides fee-based services for the Fund and receives a fee for their services.

4.3.3. Non-life
The Non-life business consists of general insurance and accident and health insurance.

Products

General insurance

During 2015, Aegon revised its general insurance strategy and consequently designated its commercial portfolio (including the authorized agent and co-insurance distribution channels) as non-core. Early in 2016, the commercial portfolio was sold to Allianz Benelux NV. The portfolio was transferred as per July 1, 2016. After this divestment, Aegon Nederland focuses exclusively on private lines in general insurance. The products offered provide cover for property, motor, travel, legal aid and casualty.

Accident and income protection insurance

Aegon Nederland offers disability and sick leave products to employers that cover sick leave payments to employees not covered by social security, and for which the employer bears the risk.

4.3.4. Distribution

The main distribution channel owned by Aegon Nederland is Unirobe Meeùs Group, through which it offers financial advice to customers, including the sale of insurance, pensions, mortgage loans, financing, and savings and investment products. On October 31, 2017, Aegon Nederland sold its shares in UMG as part of its strategic objective to optimize its portfolio across its businesses. Based on materiality considerations the sale of UMG is not presented as discontinued operations. After the sale of UMG the distribution channel owned by Aegon Nederland consists of Nedasco B.V. and van Nierop Assuradeuren N.V.

4.4. Risk management approach

4.4.1. IFRS sensitivities
Results of Aegon Nederland's sensitivity analysis 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 be 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 Nederland'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 Nederland's accounting policies[2]. 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 analysis provided below.

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

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 Nederland 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 Nederland'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 Nederland'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 analysis 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 analysis below solely contains investments for general account and guarantees issued by Aegon Nederland. Investments for risk of policyholders are for the account and risk of third parties and do not lead to an increase in Aegon Nederland's exposures, other than in the form of possible guarantees. See note 8 'Derivatives' and note 19 'Guarantees' for more information on the guarantees issued.

4.4.2. Currency exchange rate risk

Aegon Nederland 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 Nederland bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the liabilities can offset this risk. For some 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 increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher expected returns. This activity may result in cash payments by Aegon Nederland 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 realizing 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 Nederland 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 Nederland 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 Nederland manages interest rate risk closely, taking into account all of the complexity regarding policyholder behavior and management action. Aegon Nederland employs sophisticated interest rate measurement techniques and actively uses derivatives and other risk mitigation tools to closely manage its interest rate risk exposure. Aegon Nederland operates an Interest Rate Risk policy that limits the amount of interest rate risk to which Aegon Nederland is exposed. All derivative use is governed by Aegon Nederland'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, except when the liability adequacy test shows a deficit and guarantee provisions. 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 a deficit position, 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. For more information on derivatives, see note 4.4.10 'Derivatives risk'.

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

	2017	2016	2015	2014	2013
3-month US Libor	1,69%	1,00%	0,61%	0,26%	0,25%
3-month Euribor	-0,33%	-0,32%	-0,13%	0,08%	0,29%
10-year US Treasury	2,41%	2,44%	2,27%	2,17%	3,03%
10-year Dutch government	0,52%	0,35%	0,79%	0,67%	2,23%

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 Nederland. 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 Nederland. 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	2017 Estimated approximate effect		2016 Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-615	-722	-167	-335
Shift down 100 basis points	734	-544	45	-794

The liability adequacy test (LAT) showed a deficit in 2017. An upward shock would lead to a surplus in the liability adequacy test, thus to the reversal of the accounted deficit, positively impacting equity. This impact is outweighed by a reduction of the market value of the fixed income portfolio. A downward shock would lead to a further increase of the deficit of the LAT, which outweighs the positive impact of the increasing market value of the fixed income portfolio. For the downward shock, the difference in impact is primarily due to the difference compared to 2016 that was available for absorption (through revaluation reserve as part of shadow accounting) in the downward scenario;

The impact on net income compared to 2016 increased due to a change in the hedging strategy on guarantee provisions.

Impact of own credit spread on guarantees

The effect of the decrease in the own credit spread during 2017 (2016: increase) was an increase of the liability for guarantees (financial guarantees and minimum investment return guarantees) by EUR 379 million (2016: decrease of EUR 216 million). Had the own credit spread been nil, the liability for guarantees would have been EUR 402 million higher (2016: EUR 918 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 Nederland typically bears the risk for investment performance which is equal to the return of principal and interest. Aegon Nederland 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 Nederland can incur defaults or other reductions in the value of these securities and loans, which could have a material adverse effect on Aegon Nederland's business, results of operations and financial condition. Investments for account of policyholders are excluded as the policyholder bears the credit risk associated with the investments.

The table that follows shows the Aegon Nederland’s maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 42 ‘Transfer of financial assets’ for further information on collateral given, which may expose Aegon Nederland to credit risk.

Positions for general account in the balance sheet

2017 Amounts in EUR million	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	2.498	-	-	-	-	-	-	-	2.498
Debt securities	19.787	-	-	-	-	-	-	-	19.787
Mortgage loans *	26.439	2.425	-	33.993	361	-	-10.629	26.150	290
Private loans	3.590	-	-	-	-	-	-	-	3.590
Other loans	165	-	-	-	-	-	-	-	165
Other financial assets	30	-	-	-	-	-	-	-	30
Derivatives with pos. values	4.177	62	29	-	-	4.090	-4	4.178	-
Long-term loans and group loans	490							-	490
Reinsurance assets	16	-	-	-	-	-	-	-	16
Total	**57.193**	**2.487**	**29**	**33.993**	**361**	**4.090**	**-10.632**	**30.327**	**26.866**

*The base-adjustment of EUR 363 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

2016 Amounts in EUR million	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	1.556	-	-	-	-	-	-	-	1.556
Debt securities	22.521	-	-	-	-	-	-	-	22.521
Mortgage loans *	24.853	2.308	-	29.829	732	-	-8.417	24.452	400
Private loans	3.124	-	-	-	-	-	-	-	3.124
Other loans	147	-	-	-	-	-	-	-	147
Other financial assets	390	-	-	-	-	-	-	-	390
Derivatives with pos. values	5.384	421	153	-	-	4.721	-	5.294	89
Long-term loans and group loans	511							-	511
Reinsurance assets	21	-	-	-	-	-	-	-	21
Total	**58.506**	**2.728**	**153**	**29.829**	**732**	**4.721**	**-8.417**	**29.746**	**28.760**

*The base-adjustment of EUR 504 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

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.

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.

Mortgage loans
The real estate collateral for mortgage loans comprises mainly of 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 Nederland'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 1, 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 exceeds the value of the mortgage loan) as Aegon Nederland 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.

Reinsurance assets
The collateral related to the reinsurance assets include assets in trust that are held by the reinsurer for the benefit of Aegon. The assets in trust can be accessed to pay policyholder benefits in the event the reinsurers fail to perform under the terms of their contract.

Collateral
Aegon Nederland 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 Nederland 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 42 ‘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 Nederland operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. These 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 Nederland’s internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. The policy is reviewed regularly. During 2017 there has been one breach regarding the CNLP, where for one counterparty the CNLP limit of EUR 135 million was exceeded by EUR 60 million. This breach was the result of an internal downgrade of the counterparty, which led to a lower limit. Subsequently, the exposure was reduced to be in line with this new, lower limit. This breach, which was resolved within the quarter, was reported to the local Risk & Capital Committee (RCC) and did not require reporting to the Global RCC.

The ratings distribution of the general account investments is presented in the table in note 4.4.4. ‘Credit rating’. Aegon Nederland’s level long-term counterparty exposure limits, are as follows:

in EUR million	Limit 2017	Limit 2016
AAA	270	270
AA	270	270
A	200	190
BBB	135	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[3]. 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 Nederland, including reinsurance assets, is presented in the next table, organized by rating category and broken out by assets which are valued at fair value and assets which are valued at amortized cost. Aegon Nederland maintains a rating hierarchy that is closely aligned with the CNLP as maintained within Aegon N.V. 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.

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

Investments for general account and reinsurance assets by rating

2017	Amortized cost	Fair value	Reinsurance assets	Total 2017
AAA	1.658	12.727	-	14.385
AA	85	5.109	6	5.200
A	56	2.166	3	2.225
BBB	941	998	-	1.939
BB	18	19	-	37
B	-	-	-	-
CCC or lower	-	3	-	3
Assets not rated	27.800	5.471	6	33.277
Total on balance credit exposure	**30.557**	**26.493**	**16**	**57.066**
Of which past due and / or impaired assets	299	36	-	335

2016	Amortized cost	Fair value	Reinsurance assets	Total 2016
AAA	1.628	13.020	7	14.655
AA	92	5.550	9	5.651
A	12	2.708	5	2.724
BBB	850	2.329	-	3.180
BB	18	106	-	124
B	-	10	-	11
Assets not rated	26.034	6.128	-	32.162
Total on balance credit exposure	**28.634**	**29.851**	**21**	**58.506**
Of which past due and / or impaired assets	348	53	-	401

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.

<u>Credit risk concentration – debt securities and money market investments</u>

	2017	2016
ABSs- Collateralized Debt Obligations (CDOs)	1.529	2.437
ABSs- Credit cards	-	62
ABSs- Other	298	214
Residential mortgage backed securities (RMBSs)	556	650
Commercial mortgage backed securities (CMBSs)	-	44
Total investments in unconsolidated structured entities	**2.383**	**3.407**
Financial - Banking	274	322
Financial - Other	216	205
Industrial	1.269	2.545
Utility	106	391
Sovereign exposure	15.539	15.652
Total	**19.787**	**22.521**
Of which past due and / or impaired assets	-	-

<u>Credit risk concentration – mortgage loans</u>

	2017	2016
Apartment	3.180	3.198
Office	-	1
Retail	11	12
Other commercial	38	41
Residential	23.210	21.602
Total	**26.439**	**24.853**
Of which past due and / or impaired assets	262	345

Fair value of the mortgage loan portfolio:	2017	2016
Fair value mortgage loans	30.926	29.479
The LTV was approximately	75,6%	83,4%
The part of the portfolio that is government guaranteed	51,2%	57,2%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,2%	0,4%
Impairments (reversals) during the year	-8	-5

Unconsolidated structured entities

Aegon Nederland’s investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented as part of the line item 'Investments' of the statement of financial position. Aegon Nederland’s interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Nederland does not keeps loans, derivatives or other interests related to these investments. The maximum exposure to losses from 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 Nederland invests primarily in senior notes. Additional information on credit ratings for Aegon Nederland’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 Nederland are widely dispersed looking at the individual amount per entity, therefore Aegon Nederland only has non-controlling interests in unconsolidated structured entities.

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

2017	Number of entities	Carrying amount
EUR 0 < 10 million	58	161
> EUR 10 < 25 million	37	539
> EUR 25 < 50 million	12	470
> EUR 50 < 75 million	6	344
> EUR 75 < 100 million	4	344
> EUR 100 < 150 million	2	236
> EUR 150 < 250 million	-	-
> EUR 250 million	1	291
At December 31	**120**	**2.383**

2016	Number of entities	Carrying amount
EUR 0 < 10 million	100	326
> EUR 10 < 25 million	34	575
> EUR 25 < 50 million	13	466
> EUR 50 < 75 million	12	749
> EUR 75 < 100 million	11	954
> EUR 100 < 150 million	3	338
> EUR 150 < 250 million	-	-
> EUR 250 million	-	-
At December 31	**173**	**3.407**

For unconsolidated structured entities in which Aegon Nederland 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 Nederland's interests in unconsolidated structured entities. Aegon Nederland 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	2017 Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	5	-8	**-4**	556
Commercial mortgage backed securities	1	-	**1**	28
Asset Backed Securities	22	17	**39**	1.573
ABS's - Other	1	-	**2**	227
Total	**29**	**9**	**38**	**2.383**

Type of asset in unconsolidated entity	2016 Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	6	15	**21**	650
Commercial mortgage backed securities	1	-	**1**	44
Asset Backed Securities	31	-	**31**	2.437
ABS's - Other	3	-	**3**	276
Total	**41**	**15**	**56**	**3.407**

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

4.4.7. Inflation risk

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

4.4.8. Past due and impaired financial assets

The tables that follow provide information on past due and impaired financial assets for Aegon Nederland. 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 Nederland 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

	2017	2016
Shares	36	53
Mortgage loans	167	277
Other	3	3
Total	**206**	**334**

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 5 million (2016: EUR 13 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 Nederland, 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 Nederland, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

Debt securities

Aegon Nederland 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

2017	0-6 months	6-12 months	> 1 year	2017
Mortgage loans	92	2	-	95
Total	**92**	**2**	**-**	**95**

2016	0-6 months	6-12 months	> 1 year	2016
Mortgage loans	63	3	2	68
Total	**63**	**3**	**2**	**68**

4.4.9. Equity market risk and other investments risk

Fluctuations in the equity, real estate and capital markets have affected Aegon Nederland'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 Nederland 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 Nederland on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees. Aegon Nederland 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 Nederland is as follows:

	2017	2016
Equity funds	2.490	1.547
Common shares	8	7
Hedge funds	1	1
General account shares	2.498	1.556
Investments in real estate	1.495	1.238
Other financial assets	30	390
Total	**4.023**	**3.184**

The investments in real estate mainly comprise residential property. The tables that follow present specific market risk concentration information for general account shares:

	2017	2016
Financials	3	4
Funds	2.490	1.547
Other	5	4
Total	**2.498**	**1.556**
Of which past due and / or impaired assets	36	53

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.

	2017	2016	2015	2014	2013
S&P 500	2.674	2.239	2.044	2.059	1.848
Nasdaq	6.903	5.383	5.007	4.736	4.177
FTSE 100	7.688	7.143	6.242	6.566	6.749
AEX	545	483	442	424	402

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 Nederland's portfolios and the strengthening of the provisions for guaranteed minimum benefits, when applicable.

	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Equity increase 10%	-29	-26	-1	16
Equity decrease 10%	-35	-38	-48	-64
Equity increase 20%	-64	-58	1	33
Equity decrease 20%	-87	-94	-112	-144

Aegon Nederland uses 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.

4.4.10. Derivatives risk

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

Aegon Nederland 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. See note 19 'Guarantees' for more detailed disclosures.

4.4.11. Liquidity risk

Liquidity risk is inherent in much of Aegon Nederland'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 Nederland 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 insurance 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 Nederland 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.

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.

The stressed liquidity scenario is described below.

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 Nederland 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.

Events that may have a sudden, adverse impact on available liquidity include the following:

- Large change in interest rates;
- Large change in credit spreads;
- Insolvency of a counterparty, credit facility or bank where current accounts are held.

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

- 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 modelling the cash flows from liabilities. These include but are not limited to:

- Contractual repayments at maturity;
- Benefits and claims;
- 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. It is expected there will be little new commercial activity if Aegon Nederland'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 likely increase as well.

Results of the coverage ratios

Aegon Nederland holds EUR 17.2 billion (2016: EUR 16.9 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 modelling the expected cash flows for assets and liabilities for each period of up to 2 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 2017.

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

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

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Nederland 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 to manage the liquidity risk arising from financial liabilities, Aegon holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. For this reason, Aegon believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

2017	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Borrowings and group loans	-	1.634	3.463	1.482	4	6.582
Savings deposits	7.075	658	931	324	580	9.568
Investment contracts	-	10	38	50	121	219
Investment contracts for account of policyholders	-	-	-	-	133	133
Other financial liabilities	661	1.085	646	13	28	2.433
Total	**7.736**	**3.387**	**5.077**	**1.869**	**865**	**18.935**

2016	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Borrowings and group loans	-	2.548	4.072	496	1	7.118
Savings deposits	7.003	614	849	240	108	8.814
Investment contracts	-	10	38	50	131	229
Investment contracts for account of policyholders	-	-	-	-	466	466
Other financial liabilities	512	1.558	729	18	26	2.842
Total	**7.515**	**4.730**	**5.688**	**804**	**733**	**19.470**

In 2017, the investment contracts for account of policyholders decreased mainly due to derecognition of a part of the portfolio of Aegon PPI. Refer to note 22 ‘Investment contracts for account of policyholders’ for more information.

Expected undiscounted cash flows relating to insurance and investment contracts

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

Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with Aegon Nederland’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 note 17 ‘Insurance contracts’ and note 18 ‘Insurance contracts for account of policyholders’.

2017	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Insurance contracts	1.294	5.216	6.253	37.281	50.044
Insurance contracts for account of policyholders	1.122	3.630	5.013	21.841	31.605
Investment contracts	15	48	57	131	250
Investment contracts for account of policyholders	-	-	-	133	133
Total	**2.431**	**8.894**	**11.322**	**59.386**	**82.033**

2016	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Insurance contracts	1.104	5.203	6.279	36.555	49.141
Insurance contracts for account of policyholders	1.333	3.760	4.585	21.202	30.880
Investment contracts	16	51	58	142	267
Investment contracts for account of policyholders	-	-	-	466	466
Total	**2.453**	**9.014**	**10.922**	**58.366**	**80.755**

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.

2017	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Cash inflows	-	657	3.721	7.391	14.140	25.908
Cash outflows	-	-772	-3.646	-7.255	-14.659	-26.332

2016	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Cash inflows	-	729	2.865	7.242	13.570	24.406
Cash outflows	-	-1.349	-3.399	-6.401	-12.913	-24.062

4.4.12. Underwriting risk

General information

Aegon Nederland'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 Nederland 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 irrecoverability. This could have a materially adverse effect on Aegon Nederland's business, results of operations and financial condition.

Sources of underwriting risk include policyholder behavior (such as lapses surrender of policies or partial withdrawals) and policy claims (such as mortality and morbidity). In general, Aegon Nederland is at risk if policy lapses increase in some cases Aegon Nederland is unable to fully recover up front expenses in selling a product despite the claw back mechanism for commissions or surrender charges and fees. For mortality and morbidity risk, Aegon Nederland 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 Nederland is also at risk if expenses are higher than assumed by management.

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

Reinsurance policy

Aegon Nederland reinsures part of its insurance exposure to third-party reinsurers under traditional indemnity, and 'excess of loss' contracts. Reinsurance helps Aegon Nederland manage, mitigate and diversify its insurance risks, and limit the maximum loss it may incur.

Aegon Levensverzekering has reinsured its term life assurance through quota-sharing contracts with Reinsurance Group of America and Munich Re.

In December 2013, Aegon Nederland has reinsured a specified portfolio of annuities against possible future mortality improvements through a longevity reinsurance contract between its subsidiary Aegon Levensverzekering and Blue Square Re N.V. ('Blue Square'), a 100% subsidiary of Aegon N.V., Aegon Nederland's ultimate parent company.

For non-life, Aegon Schadeverzekering only reinsures its property, general and motor third-party liability business. The main counterparties are Hannover Re and SCOR Re Europe. For property insurance, an 'excess of loss' contract is in place with a retention level of EUR 350,000 for each separate risk, and EUR 2,5 million for each windstorm event. For motor third-party liability insurance, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 750,000 for each event. For general third-party liability, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 350,000 for each event.

Notes to the table
Sensitivity analysis of net income and shareholders' equity to various underwriting risks is shown in the table that follows. The sensitivities represent an increase or decrease of mortality and morbidity rates over the 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 Nederland's assumed life expectation at the time of underwriting negatively impacts its results.

	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
20% increase in lapse rates	60	39	3	11
20% decrease in lapse rates	-69	-45	-3	-12
10% increase in mortality rates	425	787	446	811
10% decrease in mortality rates	-413	-818	-443	-850
10% increase in morbidity rates	-25	-84	-29	-88
10% decrease in morbidity rates	26	76	26	75

The sensitivity of net income and equity for parallel shifts in underwriting shocks is in line with prior year sensitivity.

Longevity
Aegon Nederland partially hedges the risk of future longevity increases in the Netherlands related to a part of its insurance liabilities. Over the past years Aegon Nederland has initiated a number of transactions to hedge this risk via both longevity index derivatives and reinsurance contracts.

4.4.13. Modelling risk

Aegon Nederland makes extensive use of models to value assets, liabilities and capital requirements. It is therefore subject to modelling risk. A modelling approach can be wrong in the sense of misestimating (future) values of assets, liabilities and capital requirements. The main causes of modelling risk are:

- The model might contain methodological errors (mathematical inconsistencies or misinterpretations of applicable regulations);
- The model might be inputted with wrong source data;
- The model might be based on assumptions and simplifications that are not completely appropriate;
- Results of the model might be misinterpreted.

The internal control framework and model governance adopted by Aegon Nederland are aimed at reducing modelling risk. Also back-testing and experience analysis are performed to mitigate modelling risk.

4.4.14. Other risks

Catastrophes

The operating results and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires and explosions. Generally, Aegon Nederland seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, even with reinsurance, such events could lead to considerable financial loss. Furthermore, natural disasters, terrorism and fires could disrupt Aegon Nederland's operations and could result in significant loss of property, substantial personnel losses and the destruction of company and customer information.

Legislation and regulation

Aegon Nederland's insurance and banking activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation of insurance and banking products may affect Aegon Nederland's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Nederland'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 Nederland is involved in litigation as part of the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are being sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Moreover, certain groups encourage others to bring lawsuits in respect of certain products. Aegon Nederland 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 Nederland will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability. For more details refer to note 41.4 "Legal and arbitrary proceedings, regulatory proceedings and actions".

5. Cash and cash equivalents

	2017	2016
Cash on hand and balances with banks	2.426	1.690
Short term bank deposits	2.022	2.489
Money market investments	3.936	3.211
Short term collateral	3	16
Total	**8.386**	**7.406**

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.

Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. Aegon Nederland earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities.

We refer to note 42 'Transfers of financial assets' for more information on collateral and reverse repurchase obligations.

Deposits with Dutch Central Bank (DNB)

Cash and cash equivalents include cash and demand balances held at the Dutch Central Bank. The Dutch Central Bank requires Aegon Bank N.V. to place 1% of their deposits with agreed maturity or the savings accounts (without restrictions to withdraw their money) in an account with the Dutch Central Bank This deposit is renewed every 42-49 days, based on an updated valuation of total assets. 'The interest received on this deposit is equal to the ECB deposit rate of -/-40bp (2016 was-30bp until March 16, 2016 and -/-40bp the rest of the year). The average minimum required balance on deposit by the Dutch Central Bank was EUR 67 million (2016: EUR 63 million). These deposits are freely available. Other cash and cash equivalents are unrestricted. Due to the nature of this asset the total amount classifies as current assets.

	2017	2016
Average balance on deposit with DNB at year-end	1.326	824
Average minimum required balance on deposit by DNB for year-end period	67	63

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. See also note 40.2 'summary of financial assets and financial liabilities at fair value through profit or loss'.

	Note	2017	2016
Available-for-sale financial assets (AFS)	6.1	19.859	23.063
Loans (amortized cost)	6.1	30.557	28.627
Financial assets at fair value through profit or loss (FVTPL)	6.1	2.456	1.404
Total financial assets, excluding derivatives		**52.873**	**53.094**
Investments in real estate		1.495	1.238
Total investments for general account		**54.367**	**54.332**

6.1. Financial assets, excluding derivatives

2017	AFS	Loans	FVTPL	Total	Fair value
Shares	45	-	2.453	2.498	2.498
Debt securities	19.784	-	3	19.787	19.787
Mortgage loans	-	26.802	-	26.802	30.926
Private loans	-	3.590	-	3.590	4.038
Deposits with financial institutions	-	50	-	50	50
Policy loans	-	2	-	2	2
Other	30	113	-	143	143
At December 31	**19.859**	**30.557**	**2.456**	**52.873**	**57.444**

2016	AFS	Loans	FVTPL	Total	Fair value
Shares	152	-	1.404	1.556	1.556
Debt securities	22.521	-	-	22.521	22.521
Mortgage loans	-	25.357	-	25.357	29.479
Private loans	-	3.124	-	3.124	3.510
Deposits with financial institutions	-	40	-	40	40
Policy loans	-	3	-	3	3
Other	390	104	-	494	494
At December 31	**23.063**	**28.627**	**1.404**	**53.094**	**57.602**

	2017	2016
Current	5.673	5.364
Non-current	47.199	47.731
Total financial assets, excluding derivatives	**52.873**	**53.094**

Reference is made to note 40 ‘Fair value of assets and liabilities’ 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 lower carrying value of EUR 362 million as at December 31, 2017 (2016: EUR 504 million higher). None of the financial assets has been reclassified during the financial year. Other loans comprise deposits with insurance companies with respect to reinsurance agreements. These are not freely available.

6.2. Loans allowance

<u>Loan allowance account</u>
Movements on the loan allowance account during the year were as follows:

	2017	2016
At January 1	104	109
Addition charged to income statement	16	12
Amounts written off	-10	-17
Other movements	4	-1
At December 31	**113**	**104**

6.3. Investments in real estate

	2017	2016
At January 1	1.238	1.148
Additions	237	88
Disposals	-106	-88
Fair value gains / (losses)	126	91
At December 31	**1.495**	**1.238**

Aegon Nederland's investments in real estate consists mainly of residential property. Aegon Nederland 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[4] 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 during the reporting period by independent external valuators.

[4] The maximum monthly rent in the affordable housing segment ('liberalisatiegrens' or 'huurtoeslaggrens') as of January 1, 2017 is EUR 710,68

Rental income

Rental income is reported as part of investment income in the income statement, see note 29 ‘Investment income’. Additional information on rental income is presented in the table below:

	2017	2016
Theoretical rental income	82	82
Minus: missed rental income on vacant investment property	2	2
Gross rental income	80	80
Direct operating expenses of property that generated rental income	-25	-26
Net income on real estate	**55**	**54**

7. Investments for account of policyholders

Investments for account of policyholders comprises of 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 30 ‘Fee and commission income’. See also note 40.2 ‘summary of financial assets and financial liabilities at fair value through profit or loss’.

	2017	2016
Shares	9.039	9.582
Debt securities	9.197	11.663
Mortgage loans	1.792	1.541
Other financial investments	583	479
Cash and cash equivalents	2.964	2.026
	23.574	**25.292**

Almost all shares and debt securities for account of policyholders are publicly traded.

8. Derivatives

	Derivative asset		Derivative liability	
	2017	2016	2017	2016
Derivatives not designated in a hedge	4.141	5.367	5.331	5.819
Derivatives designated as fair value hedges	36	17	309	461
Total	**4.177**	**5.384**	**5.640**	**6.280**

	2017	2016
Current	118	-245
Non-current	-1.580	-652
Total net derivatives	**-1.462**	**-896**

See also note 40.2 ‘summary of financial assets and financial liabilities at fair value through profit or loss’.

Derivatives not designated in a hedge – general account

	Derivative asset		Derivative liability	
	2017	2016	2017	2016
Derivatives held as an economic hedge	4.141	5.367	3.781	4.260
Bifurcated embedded derivatives	-	-	1.550	1.559
Total	**4.141**	**5.367**	**5.331**	**5.819**

Aegon Nederland 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 Nederland 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 and separable 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.

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 are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures. Currency contracts are used to manage Aegon Nederland’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 order to mitigate certain investment risks for investments for account of policyholders with a guaranteed return, Aegon Nederland invests in total return swaps (TRS). These TRSs hedge the movements in the guarantee provision. Under the TRSs, the returns for the account of policyholders on a specified nominal amount are paid out, while the treasury yield on this nominal amount is received.

Aegon Nederland 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.

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

	2017	2016
Fair value changes mortgage loans recognized in income statement under the EU carve-out	-135	195
Offset amount of fair value changes recognized on derivatives used as hedging instrument	126	-176
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-9**	**19**

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

	2017	2016
Presented as asset	36	17
Presented as liability	309	461
Total	**-272**	**-443**

For the year-ended December 31, 2017, Aegon Nederland recognized EUR -/- 142 million of fair value changes on mortgage loans using fair value hedge accounting under the EU carve out rule in the income statement (2016: EUR 195 million). This resulted in a lower carrying value of the mortgage loans (2016: higher).

This amount was offset by EUR 133 million fair value changes recognized on the derivatives used as hedging instrument (2016: EUR -/- 176 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 142 million higher under IFRS as issued by the IASB (2016: EUR 195 million lower).

The total net accounting ineffectiveness under the EU carve-out recognized in the income statement was EUR -/- 9 million in 2017 (2016: EUR 19 million).

Furthermore, fair value hedge is applied to part of the covered bond portfolio.
For the year-ended December 31, 2017, Aegon Nederland recognized EUR 7 million of fair value changes on the covered bond portfolio using fair value hedge accounting in the income statement (2016: nil). This amount was offset by EUR -/- 7 million fair value changes recognized on the derivatives used as hedging instrument (2016: nil).

During 2016 Aegon Nederland group companies (Aegon Spaarkas, Optas Pensioenen and Aegon Levensverzekering) and as per the third quarter of 2017 Aegon Schadeverzekering changed their risk management policy and decided to take on more interest rate risk, in order to economically offset the interest rate risk on the insurance liabilities. This has resulted in a de-designation of all fair value hedge accounting applied to these mortgage portfolios as of that date. The cumulative base adjustment (EUR 67 million per yearend 2017) is amortized over the weighted average duration (7 to 13 years) of the mortgage portfolios to which hedge-accounting was applied at the date of de-designation.

As at December 31, 2017, the fair value of outstanding derivatives designated under fair value hedge accounting amounted to EUR -/- 272 million (2016: EUR -/- 443 million). As of Q3 2017 only Aegon Bank and Aegon Hypotheken apply fair value hedge accounting.

9. Investments in associates

	2017	2016
At January 1	21	19
Additions	55	6
Disposals	-	-3
Share in net income	4	2
Dividend	-2	-2
Share in changes in associates' equity	-2	-1
Other	-1	-
At December 31	**74**	**21**

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 Nederland.

Additions relates to the investment in OB Capital Cooperatief U.A., Auxmoney GmbH and Dynamic Credit Group B.V. in 2017. Refer to note 44.2 'Investments in associates and joint ventures' for more information.

10. Investments in joint ventures

	2017	2016
At January 1	877	837
Additions	54	27
Share in net income	126	106
Dividend	-49	-95
Share in changes in joint ventures' equity	-	2
At December 31	**1.008**	**877**

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.

Summarized financial information of material joint ventures
Aegon Nederland considers its investment in AMVEST entities as material joint ventures. The summarized financial information presented below are the amounts included in the IFRS financial statements of AMVEST on 100% basis.

	2017	2016
Summarized statement of financial position		
Cash and cash equivalents	109	135
Other current assets	166	237
Total current assets	**276**	**372**
Non-current assets	**3.173**	**2.519**
Total assets	**3.449**	**2.891**
Other current liabilities	133	149
Total current liabilities	**133**	**149**
Non-current financial liabilities excluding trade payables and other provisions	643	476
Total non-current liabilities	**643**	**476**
Total liabilities	**776**	**625**
Net assets	**2.673**	**2.266**
Summarized statement of comprehensive income		
Revenues	91	86
Interest income		
Interest expense	-5	-7
Profit or loss from continuing operations	357	275
Income tax expense or income	-1	-10
Post-tax profit or loss from continuing operations	**357**	**266**
Post-tax profit or loss from discontinued operations		
Other comprehensive income	-	7
Total comprehensive income	**357**	**273**
Dividends received from joint ventures	49	95

Refer to note 44.2 ‘Investments in associates and joint ventures’ for a listing of the principal investments in joint ventures and the percentage holding of Aegon Nederland. A reconciliation of the summarized financial information to the carrying amounts of the joint ventures is as follows:

	2017	2016
Net assets of joint venture as presented above	2.673	2.266
Group share of net assets of joint venture, excluding fair value adjustments	1.008	877
Carrying amount of investments in joint ventures	**1.008**	**877**

11. Borrowings and group loans

	2017	2016
Loan Aegon Derivatives N.V.	479	505
Loan Aegon N.V.	4	-
Loan Blue Square Re	7	6
At December 31	**490**	**511**
current	483	505
non-current	7	6
Total	**490**	**511**

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

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

12. Reinsurance assets

	2017	2016
Life insurance general account	9	10
Non-life insurance	7	12
At December 31	**16**	**21**
Current	3	6
Non-current	13	16
	16	**21**

Amounts due from reinsurers in respect of claims already paid by Aegon Nederland on contracts that are reinsured are included in note 14 'Other assets and receivables'.

<u>Movements during the year in reinsurance assets</u>

2017	Life insurance		Non-life insurance	Total
	General account	For account policyholders		
At January 1	10	-	12	21
Gross premiums and deposits	9	-	7	16
Changes in unearned premiums	-	-	-7	-7
Insurance liabilities released	-10	-		-10
Release for claims settled prior years	-	-	-5	-5
At December 31	**9**	**-**	**7**	**16**

2016	Life insurance		Non-life insurance	Total
	General account	For account policyholders		
At January 1	12	-	14	26
Gross premiums and deposits	8	-	5	13
Changes in unearned premiums	-	-	-5	-5
Insurance liabilities released	-11	-	-	-11
Incurred related to current year	-	-	1	1
Release for claims settled prior years	-	-	-4	-4
At December 31	**10**	**-**	**12**	**21**

13. Deferred expenses

	2017	2016
At January 1	84	97
Costs deferred	11	11
Amortization through income statement	-19	-24
At December 31	**76**	**84**
Current	17	17
Non-current	59	67
At December 31	**76**	**84**

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

In December 2013, Aegon Nederland entered into a longevity reinsurance contract with Blue Square Re, a 100% owned subsidiary of Aegon N.V., Aegon Nederland'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 941 million (2016: EUR 987 million). Blue Square Re will pay benefits as long as the participants live and receive fixed payments from Aegon Nederland. At year-end 2017, EUR 22 million (2016: 23 million) is recognized as deferred cost of reinsurance with regard to this reinsurance contract, which is amortized over the duration of the underlying insurance contracts.

14. Other assets and receivables

	note	2017	2016
Real estate held for own use	14.1	115	120
Equipment	14.2	49	53
Receivables	14.3	1.430	1.248
Accrued income	14.4	512	487
Total		**2.105**	**1.909**

14.1. Real estate held for own use

	2017	2016
Cost		
At January 1	161	154
Additions	2	8
Revaluations	1	-
Other	-34	-1
At December 31	**130**	**161**
Accumulated depreciation		
At January 1	41	39
Depreciation through income statement	2	2
Other	-28	-
At December 31	**15**	**41**
Net book value at December 31	**115**	**120**

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG). As a result all real estate held for own use related to UMG is derecognized, which explained the line-items ‘Other’.

Real estate held for own use is revalued at least once in three years, based on appraisals by independent external valuators. The entire portfolio of investments in real estate held for own use was appraised in 2015. Key assumptions in determining the fair value were the rental income and the lease term of the property. The useful life of real estate held for own use is between 40 and 50 years. Real estate held for own use has not been provided as collateral for liabilities nor are ownership rights restricted. Depreciation through the income statement is included in note 35 ‘Commissions and expenses’.

14.2. Equipment

	2017	2016
Cost		
At January 1	195	190
Additions	15	8
Disposals	-4	-3
Other	-104	-
At December 31	**102**	**195**
Accumulated depreciation		
At January 1	142	131
Depreciation through income statement	11	13
Disposals	-3	-2
Other	-97	-
At December 31	**53**	**142**
Net book value at December 31	**49**	**53**

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG). As a result all equipment related to UMG is derecognized, which mainly explained the line-item 'Other'.
No equipment has been provided as collateral for liabilities nor are ownership rights restricted. Assets are depreciated over their useful life, a period of three to fifteen years. Depreciation through the income statement is included in note 35 'Commissions and expenses'.

14.3. Receivables

	2017	2016
Receivables from reinsurers	1	9
Reverse repurchase agreements	230	77
Investment debtors	777	556
Receivables from policyholders	188	303
Receivables from brokers and agents	5	10
Loans to associates	1	1
Current account with group companies	36	-
Other	204	340
Provision for doubtful debts	-12	-47
Total	**1.430**	**1.248**
Current	1.405	1.206
Non-current	24	43
Total	**1.430**	**1.248**

The carrying amounts disclosed reasonably approximate the fair values at year-end. Other mainly consists of margin futures held for derivatives.

Information on provision for doubtful debts:

	2017	2016
Policyholders, brokers and agents	12	11
Trade receivables	-	36
Total	**12**	**47**

Movement schedule

	2017	2016
At January 1	47	64
Additions charged to earnings	6	3
Used during the year	-37	-14
Unused amounts reversed through the income statement	-3	-6
At December 31	**12**	**47**

14.4. Accrued income

	2017	2016
Accrued interest	489	454
Prepaid expenses	19	29
Deferred acquisition expenses non-life insurance	3	5
At December 31	**512**	**487**

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

15. Intangible assets

	2017	2016
Goodwill	-	25
VOBA insurance contracts	17	22
VOBA intermediary portfolios	-	8
Software	19	5
Total	**35**	**60**

2017

Cost	Goodwill	VOBA ins. contr	VOBA interm. portf.	Software	Total 2017
At January 1	69	74	170	49	361
Additions	1	-	6	19	26
Other movements	-55	-	-175	-48	-278
At December 31	**15**	**74**	**-**	**20**	**109**

2017

Accumulated amortization/impairment	Goodwill	VOBA ins. contr	VOBA interm. portf.	Software	Total 2017
At January 1	43	52	162	44	301
Amortization / impairment through income statement	-	5	3	3	11
Other movements	-28	-	-165	-46	-238
At December 31	**15**	**57**	**-**	**2**	**74**
Net book value at December 31	**-**	**17**	**-**	**19**	**35**

2016

Cost	Goodwill	VOBA ins. contr	VOBA interm. portf.	Software	Total 2016
At January 1	66	74	168	47	356
Additions	2	-	2	2	6
At December 31	**69**	**74**	**170**	**49**	**361**

2016

Accumulated amortization / impairment	Goodwill	VOBA ins. contr	VOBA interm. portf.	Software	Total 2016
At January 1	43	48	158	42	291
Amortization / impairment through income statement	-	5	4	2	10
At December 31	**43**	**52**	**162**	**44**	**301**
Net book value at December 31	**25**	**22**	**8**	**5**	**60**

Goodwill is tested for impairment annually, considering the higher of the value in use and fair value less costs to sell. With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. VOBA insurance contracts currently recognized are amortized over the duration of the related contracts with an average remaining amortization period of 4 years (2016: 5 years). Software is generally depreciated over an average period of 5 years. At December 31, 2017, the remaining average amortization period was 5 years.

Amortization and impairment through the income statement is included in note 35 ‘Commissions and expenses’. None of the intangible assets have titles that are restricted or have been pledged as collateral for liabilities.

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG). As a result all goodwill, VOBA and other intangibles (e.g. software) related to UMG are derecognized. This is included in as ‘other movements’.

16. Equity

	2017	2016
Share capital	24	24
Share premium	1.645	645
Revaluation reserves	1.244	1.716
Retained earnings	3.939	3.103
Shareholders' equity	**6.851**	**5.487**
Non-controlling interests	10	8
Group equity	**6.861**	**5.495**

There are restrictions on the distribution to shareholders of the revaluation reserve on real estate and revaluations relating to financial instruments that are not actively traded / quoted, which are part of retained earnings.

16.1. Share capital

	2017	2016
Authorized share capital	50	50
Not issued	26	26
	24	**24**

The authorized share capital is EUR 50 million, divided into 100,000 shares of EUR 500 nominal value each, of which 47,194 shares have been issued and fully paid up. There have been no changes since the previous financial year. Aegon Nederland can only pay dividend to Aegon Europe Holding B.V. Aegon Nederland paid no dividend to Aegon N.V. in 2017 or 2016.

Under Dutch law the amount available for distribution as dividend to the shareholder can be calculated as total equity, deducted by 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, the Dutch insurance subsidiaries of Aegon Nederland may terminate proposed 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 proposed dividend, (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 completion of the distribution.

In addition, Aegon Nederland's subsidiary Aegon Bank is not allowed to pay dividend to its shareholder if a distribution would lead to a deterioration of the capital position of Aegon Bank, such that the capital requirements, as prescribed in article 3:62b of the Dutch Financial Supervision Act would no longer be complied with. However, notwithstanding article 3:62b of the Dutch Financial Supervision Act, Aegon Bank may distribute dividend, subject to the prior notification to the Dutch Central Bank, up to the amount of the Maximum Distributable Amount (MDA), as referred to in article 141(4) of the Capital Requirements Regulation (CRR).

16.2. Share premium

	2017	2016
At January 1	645	645
Capital contributions	1.000	-
At December 31	**1.645**	**645**

During 2017 Aegon N.V., the ultimate parent company of Aegon Nederland N.V., decided to improve the capital position of, Aegon Nederland's subsidiary Aegon Levensverzekering. This was done through two capital contributions in terms of share premium by Aegon Europe Holding B.V. of respectively EUR 200 million on July 7, 2017 and EUR 800 million on August 31, 2017.

16.3. Revaluation reserves

	2017	2016
At January 1	1.716	2.051
Gross revaluation	-399	-206
Net (gains) / losses transferred to income statement	-184	-189
Tax effect	138	62
Other movements	-27	-2
At December 31	**1.244**	**1.716**

There are restrictions on the distribution to shareholders of the revaluation reserve on real estate and revaluations relating to financial instruments that are not actively traded / quoted.

	2017	2016
Shares	26	38
Debt securities	2.301	2.829
Investments in joint ventures	-	-1
Participations	3	43
Real estate held for own use	4	3
Investments in associates	15	17
Total AFS investments	**2.349**	**2.929**
Shadow accounting	-1.105	-1.214
Total revaluation reserves	**1.244**	**1.716**

The LAT deficit in the insurance liability at year-end 2017 amounts to EUR 1,425 million (2016: EUR 1,567 million). After tax deficit amounts to EUR 1,105 million (2016: 1,214 million). Aegon Nederland applies shadow accounting. 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”.

Due to the deficiency in the liability adequacy test in 2017, the insurance liabilities as per the year-end are de facto measured at accounting principles used in the liability adequacy test.

16.4. Non-controlling interests

The non-controlling interests relates to the other equity instruments (“participations”) issued by subsidiary Aegon Bank. Aegon Bank has issued 1,900 subordinated perpetual liabilities (participations) with a corresponding value of EUR 10 million (2016: 1,571 participations with a corresponding value of EUR 8 million). Based on the specific characteristics the participation qualifies as tier 1 capital under the applicable banking regulations. Due to the nature of the participation, the instrument also qualifies as equity under IFRS. Owners of participations receive a discount on their banking fees. This discount on the fee is netted on the corresponding fee income. The interest charges are treated as dividend in the statement of equity. The dividend is shown on a net basis. This includes the deducted dividend tax on the discount and the interest.

17. Insurance contracts

	Note	2017	2016
Life insurance	17.1	33.386	33.863
Non-life insurance			
- Unearned premiums and unexpired risks		65	64
- Outstanding claims		584	587
- Incurred but not reported claims		347	391
	17.2	**996**	**1.041**
Total insurance contracts		**34.382**	**34.904**

17.1. Life insurance

Movements during the year in life insurance

Movements during the year:	2017	2016
At January 1	33.863	31.285
Gross premiums	846	985
Unwind of discount / interest credited	921	926
Insurance liabilities released	-2.040	-1.907
Changes in valuation of expected future benefits	-779	2.457
Portfolio transfers and acquisitions	249	101
Expense loadings released	-99	-103
Net exchange differences	-3	2
Movement unamortized interest rate contracts	335	116
Other	92	1
At December 31	**33.386**	**33.863**

The life insurance contract liabilities decreased by EUR 477 million (2016: increase of 2,577 million). The change in valuation of expected future benefits mainly relates to a decreased value of guarantees due to increased interest rates and the adjustment of the LAT deficit. In 2017 the line item ‘other’ mainly consists of pension contracts which upon renewal were transferred from ‘insurance contracts for account of policyholders’ to ‘insurance contracts’. The remainder is the result of the sale of UMG.

The LAT deficit in the insurance liability at year-end 2017 amounts to EUR 1,425 million (2016: EUR 1,567 million). After tax deficit amounts to EUR 1,105 million (2016: 1,214 million). Aegon Nederland applies shadow accounting.

Due to the deficiency in the liability adequacy test in 2017, the insurance liabilities as per the end of 2017 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 2.17.5 “shadow accounting” and 3.3 “valuation of assets and liabilities arising from life insurance contracts”.

Movements during the year in deferred interest rebates

	2017	2016
At January 1	1.174	1.058
Rebates or future interest compensation granted	411	167
Amortization through income statement	-75	-51
At December 31	**1.509**	**1.174**

The deferred interest contracts form part of the insurance liabilities of Aegon Nederland. 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 ‘Guarantees’ for more information.

17.2. Non-life insurance

	2017	2016
Accident and health insurance	851	889
General insurance	145	152
Total	**996**	**1.041**

Movements during the year in non-life insurance

	2017	2016
At January 1	1.041	1.444
Gross premiums - existing and new business	351	476
Changes in unearned premiums	-350	-500
Changes in incurred but not reported claims	-43	-23
Unwind of discount / interest credited	7	8
Incurred related to current year	185	205
Incurred related to prior years	17	-83
Release for claims settled current year	-105	-94
Release for claims settled prior years	-107	-48
Transfer due to sale of portfolio	-	-343
At December 31	**996**	**1.042**

Run off result	2017	2016
Accident and health insurance	99	36
General insurance	10	-5
Total	**109**	**31**

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

The Accident and health insurance run off result increased from EUR 36 million in 2016 to EUR 99 million in 2017 due to model changes in the WIA and regular run-off results in WIA and AOV. See note 3.2 change in estimates as well.

Claims history (gross and net)

Estimated gross cumulative claims, before reinsurance (in EUR million)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	Total
Year-end financial year	296	356	516	514	542	522	471	479	479	505	
After 1 year	-	332	539	570	600	563	506	514	492	496	
After 2 years	-	-	512	567	579	547	494	494	473	457	
After 3 years	-	-	-	553	570	537	479	466	465	454	
After 4 years	-	-	-	-	548	509	479	482	469	440	
After 5 years	-	-	-	-	-	494	456	475	464	396	
After 6 years	-	-	-	-	-	-	450	480	454	395	
After 7 years	-	-	-	-	-	-	-	477	470	392	
After 8 years	-	-	-	-	-	-	-	-	465	402	
After 9 years	-	-	-	-	-	-	-	-	-	400	
Estimated cumulative claims	**296**	**332**	**512**	**553**	**548**	**494**	**450**	**477**	**465**	**400**	
Cumulative payments	-105	-157	-325	-391	-434	-411	-386	-425	-418	-369	
Total from discontinued operations*		-29	-75	-56	-39	-26	-21	-14	-8	-9	
	191	**146**	**112**	**106**	**75**	**57**	**43**	**38**	**39**	**22**	**829**
Outstanding claims prior year (<2008											103
Outstanding claims in financial statements (including IBNR)											**932**

* The line 'Total from discontinued operations' in the table above includes payments made to Allianz for the transfer of outstanding claims in relation to the sold underlying insurance portfolio in 2016.

Estimated net cumulative claims, after reinsurance (in EUR million)

+

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	Total
Year-end financial year	296	353	516	513	535	518	471	479	478	501	
After 1 year	-	328	538	570	594	559	504	514	492	495	
After 2 years	-	-	511	566	575	544	492	492	471	455	
After 3 years	-	-	-	552	567	534	478	465	465	453	
After 4 years	-	-	-	-	545	505	478	480	469	439	
After 5 years	-	-	-	-	-	490	455	474	464	395	
After 6 years	-	-	-	-	-	-	450	480	454	393	
After 7 years	-	-	-	-	-	-	-	476	470	390	
After 8 years	-	-	-	-	-	-	-	-	465	401	
After 9 years	-	-	-	-	-	-	-	-	-	398	
Estimated cumulative claims	**296**	**328**	**511**	**552**	**545**	**490**	**450**	**476**	**465**	**398**	
Cumulative payments	-105	-155	-325	-390	-433	-409	-386	-425	-418	-368	
Total from discontinued operations*		-27	-74	-56	-39	-26	-21	-14	-8	-9	
	191	**146**	**112**	**106**	**73**	**55**	**43**	**37**	**39**	**21**	**823**
Outstanding claims prior year (<2008											102
Outstanding claims in financial statements (including IBNR)											**925**

* The line 'Total from discontinued operations' in the table above includes payments made to Allianz for the transfer of outstanding claims in relation to the sold underlying insurance portfolio in 2016.

18. Insurance contracts for account of policyholders

Movements during the year in insurance contracts for account of policyholders

	2017	2016
At January 1	26.275	25.830
Gross premiums	859	907
Unwind of discount / interest credited	722	1.113
Change in unit linked account value	188	269
Insurance liabilities released	-2.330	-1.602
Changes in valuation of expected future benefits	108	275
Portfolio transfers and acquisitions	-299	-385
Expense loadings released	-116	-132
Other	180	-
At December 31	**25.587**	**26.275**

In 2017 the line item 'other' mainly consists of pension contracts which upon renewal were transferred from 'insurance contracts for account of policyholders' to 'insurance contracts'. The remainder is the result of the sale of UMG.

19. Guarantees

For financial reporting purposes Aegon Nederland distinguishes between the following types of minimum guarantees:

- Financial guarantees. These guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to note 19.1 'Financial guarantees');
- 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 'Minimum investment return guarantees).

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:

	2017	2016
At January 1	1.555	1.432
Changes in valuation of expected future benefits	-8	123
At December 31	**1.547**	**1.555**
Account value	8.805	8.957
Net amount at risk	1.737	1.972

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 Nederland 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 Nederland 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.

	2017	2016
At January 1	5.542	4.741
Changes in valuation of expected future benefits	-823	801
At December 31	**4.719**	**5.542**
Account value	18.754	19.467
Net amount at risk	4.440	5.017

The table represents the guaranteed minimum investment return. Balances are included in the insurance liabilities on the face of the statement of financial position. Changes in valuation of expected future benefits mainly comprise the effect of guarantees from new contracts, releases related to expired out-of-the-money guarantees and fair value movements during the reporting year. Account value reflects the liability value of the insurance contracts as a whole. The net amount at risk represents the sum of the differences between the guaranteed and actual amount that 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

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 Nederland 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.

	2017	2016
Effect of guarantees on earnings before tax:	830	-925
Main drivers of this effect:		
- results related to movement in risk free interest rates	547	-1.261
- results related to movement in equity volatilities	30	280
- results related to movement in own credit spread	-379	216
Total	198	-765

The remainder mainly relates to other results of EUR 450 million driven by client data (e.g. exit of clients, contract renewals) and the performance of underlying assets (EUR 150 million)". Refer to note 40.1.8. 'Embedded derivatives in insurance contracts including guarantees' for information on the determination of the fair value of these guarantees.

	2017	2016
Hedges related to these guarantees contributed to earnings before tax:	-945	935

20. Savings deposits

	2017	2016
At January 1	8.814	7.101
Deposits	7.665	6.423
Withdrawals	-6.993	-4.776
Interest credited	83	67
At December 31	**9.568**	**8.814**
Current	7.734	7.617
Non-current	1.835	1.197
	9.568	**8.814**

The savings deposits comprise EUR 620 million of savings related to 'Bankspaarhypotheken' (2016: EUR 481 million). The received deposits related to the 'Bankspaarhypotheken' are directly invested in a sub participation of the mortgage of the specific client. The sub participation in the mortgages and the related deposits are shown gross in the financial statements as there is no intention to (directly) settle the deposit with the mortgage.

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

21. Investment contracts

	2017	2016
At January 1	229	239
Withdrawals	-10	-10
At December 31	**219**	**229**

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, 2017 is EUR 214 million (2016: EUR 230 million).

22. Investment contracts for account of policyholders

	2017	2016
At January 1	466	282
Deposits	22	163
Derecognition	-365	-
Withdrawals	-	-7
Revaluation	10	29
At December 31	**133**	**466**

This item consist of the investments held for account of the participants of Aegon PPI. These liabilities are non-current. In 2017, the investment contracts for account of policyholders decreased mainly due to derecognition of a part of the portfolio of Aegon PPI. Based on the changes in the risks associated to that part of the portfolio, it was concluded that Aegon PPI no longer controls that part of portfolio which resulted in the derecognition.

23. Borrowings and group loans

	2017	2016
Debentures and other loans	5.872	5.971
Group loans	711	1.147
Total	**6.582**	**7.118**
Current	1.634	2.548
Non-current	4.948	4.570
Total	**6.582**	**7.118**

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

23.1. Debentures and other long-term loans

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

	Coupon rate	Coupon date	Issue / maturity	FORD	Legal maturity date	2017	2016
EUR 1.365 million 'Saecure 12' RMBS Note	floating	quarterly	2012 / 17	Oct. 2017	Oct. 2092	-	1.030
EUR 750 million 'Saecure 13 NHG' RMBS Note	floating	quarterly	2012 / 18	Feb. 2018	Nov. 2093	750	862
EUR 1.367 million 'Saecure 14' RMBS Note	floating	quarterly	2014 / 19	Jan. 2019	Jan. 2092	994	1.126
EUR 1.443 million 'Saecure 15' RMBS Note	floating	quarterly	2014 / 20	Jan. 2020	Jan. 2092	1.164	1.284
EUR 750 million Conditional Pass Through Covered Bond	fixed	Annually	2015 / 20	-	Dec. 2020	747	747
EUR 500 million Conditional Pass Through Covered Bond	fixed	Annually	2016 / 23	-	May 2023	496	495
EUR 500 million Conditional Pass Through Covered Bond	fixed	Annually	2017 / 27	-	June 2027	486	-
EUR 500 million Conditional Pass Through Covered Bond	fixed	Annually	2017 / 24	-	Nov. 2024	497	-
Loan facilities warehouse mortgage loans	floating	monthly	- / 2019	-	-	515	399
Loan facility pre funding mortgage loans	floating	monthly	- / 2017	-	-	214	24
Other	-	-	-	-	-	9	4
Total						**5.872**	**5.971**

Residential mortgage backed securities (RMBS)

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's life business. 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. During 2017 the mortgages from Saecure 12 were repurchased at FORD. In February 2018, Saecure 13 was called at FORD.

Covered bond

In 2015, Aegon Bank has entered into a EUR 5 billion Conditional Pass-Through Covered Bond Program. Under this Program, the payment of interest and principal is guaranteed by an Aegon administered structured entity, Aegon Conditional Pass-Through Covered Bond Company B.V. (the Company). In order for the Company to fulfil its guarantee, Aegon Bank legally transfers mortgage loans originated by Aegon affiliates to the Company. The Company is consolidated by Aegon Nederland In 2015 Aegon Bank successfully placed its first covered bond transaction backed under this program.

As per year end Aegon bank placed the following issues under the program:

Issue	Issue date	Nominal value	Maturity date	Interest rate
Cobo 1	December 2015	EUR 750 million	December 2020	0.25%
Cobo 2	May 2016	EUR 500 million	May 2023	0.25%
Cobo 3	June 2017	EUR 500 million	June 2027	0.75%
Cobo 4	November 2017	EUR 500 million	November 2024	0.38%

Loan facilities warehouse and pre-funding mortgage loans

Committed financing takes place in a 'warehouse' structure for which a special purpose entity ('SPE'), Aegon Hypotheken Financiering B.V. ('Aegon Hypotheken Financiering'), has been incorporated. At the end of 2017, Aegon Hypotheken (a subsidiary of Aegon Nederland) borrowed EUR 515 million via this warehouse structure (2016: EUR 399 million). The interest to be paid is derived from Euribor rates with an additional spread.

In Q2 2016 Aegon Hypotheken entered into a loan agreement with a third party for temporarily funding of mortgages. The loan is secured by pipeline mortgage loans provided by Aegon Hypotheken. At year-end 2017 EUR 214 million has been drawn from EUR 250 million available under this facility (2016: EUR 24 million has been drawn). Aegon Hypotheken has a total of undrawn external committed financing arrangements available of EUR 1.271 million (2016: EUR 1.351 million).

23.2. Group loans

	2017	2016
Loan Aegon Derivatives N.V.	431	1.034
Loan Aegon N.V.	280	113
At December 31	**711**	**1.147**

current	711	1.147
non-current	-	-
Total	**711**	**1.147**

The loan with Aegon Derivatives is cash collateral paid under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Nederland. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled on a daily basis. The loan with Aegon N.V. is loan facility largely for temporarily funding of the mortgage portfolio. In total, EUR 500 million is available under this facility. The facility has a floating interest and is secured by mortgages.

24. Provisions

Movements in provisions

2017	Restructuring	Commissions	Legal procedures	Other	Total 2017
At January 1	4	25	2	42	72
Additions charged to earnings	15	9	-	3	27
Used during the year	-7	-	-	-1	-9
Other movements	-2	-33	-	-15	-50
At December 31	**9**	**-**	**2**	**28**	**39**

2016	Restructuring	Commissions	Legal procedures	Other	Total 2016
At January 1	13	27	2	37	79
Additions charged to earnings	1	-	1	11	12
Unused amounts reversed through the income statement	-3	-	-	-	-3
Used during the year	-7	-3	-1	-6	-16
At December 31	**4**	**25**	**2**	**42**	**72**

	2017	2016
Current	7	36
Non-current	32	35
Total	**39**	**72**

Restructuring provision relates to an update of the strategy has been announced regarding the non-life business, resulting in a reduction of FTE in 2016. Furthermore this relates to the reorganization of Aegon Nederland. An expense fit program is implemented to achieve a lower cost level. The program continued in 2017.

The release of the Other provision mainly relates to commitment granted following the positive verdict of the Dutch Court on the jointly - by Aegon and representatives of the Dutch harbor workers and employers- submitted request to remove the restrictive condition of the statutory reserve. The other movements mainly relates to the impact of the sale of UMG.

25. Defined benefit liabilities

Total	2017	2016
Retirement benefit plans	2.628	3.121
Other post-employment benefit plans	65	68
Total	**2.693**	**3.188**

Movements during the year in defined benefit plans

2017	Retirement benefit plans	Other post-empl. benefit plans	Total 2017
At January 1	3.121	68	3.188
Reclassification	77	-	77
Defined benefit expenses	134	2	136
Remeasurements of defined benefit plans	-149	4	-146
Contributions by plan participants	12	-	12
Benefits paid	-90	-7	-97
Deconsolidation UMG	-478	-	-478
At December 31	**2.628**	**65**	**2.693**

2016	Retirement benefit plans	Other post-empl. benefit plans	Total 2016
At January 1	2.683	61	2.744
Defined benefit expenses	130	3	132
Remeasurements of defined benefit plans	319	9	328
Plan asset revaluation	62		62
Contributions by plan participants	11	-	11
Benefits paid	-84	-5	-90
At December 31	**3.121**	**68**	**3.188**

Amounts recognized in the statement of financial position as at December 31, 2017 and 2016

The table below shows the movements during the year of the present value of the wholly unfunded obligations.

	2017	2016
At January 1	3.188	2.744
Current year service costs	86	65
Interest expense (based on discount rate)	54	67
Reclassification	77	-
Remeasurement of the net defined liability:		
- Actuarial gains and losses arising from changes in demographic assumptions	108	29
- Actuarial gains and losses arising from changes in financial assumptions	-254	299
Past service cost	-5	-
Plan asset revaluation	-	62
Contributions by plan participants	12	11
Benefits paid	-97	-90
Deconsolidation UMG	-478	-
At December 31	**2.693**	**3.188**

Defined benefit expenses

2017	Retirement benefit plans	Other post-empl. benefit plans	Total 2017
Current year service cost	85	1	86
Past service cost	-5	-	-5
Interest expenses	54	1	54
Total defined benefit expenses	**134**	**2**	**136**

2016	Retirement benefit plans	Other post-empl. benefit plans	Total 2016
Current year service cost	63	2	65
Interest expenses	66	1	67
Total defined benefit expenses	**130**	**3**	**132**

Defined benefit expenses are included in note 35 ‘Commissions and expenses’ in the income statement.

Retirement benefit plans

As all pension obligations are insured at subsidiary Aegon Levensverzekering almost all assets held by Aegon Nederland backing retirement benefits of EUR 2,457 million (2016: EUR 2,796 million) do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets does not form part of the calculation of defined benefit expenses.

Aegon Nederland has a number of defined benefit plans and a small number of defined contribution plans. The defined benefit plans are subject to Dutch Pension regulations and governed by the Board of Directors of Aegon Nederland. The Board of Directors has the full power and discretion to administer the plan including developing investment policy and managing assets for the plans (although these assets do not qualify as ‘plan assets’ as defined by IFRS), deciding questions related to eligibility and benefit amounts, and any disputes that may arise from plan participants and for complying with the plan provisions, and legal requirements related to the plan and its operation. Aegon Nederland runs, in principle, full actuarial and investment risk regarding the defined benefit plans, this includes the risks of low interest rates, low returns and increased longevity. A part of this risk can be attributed to plan participants by lowering indexation or by increasing employee contributions.

Furthermore, the specific statutory requirements governing the administration of group pension schemes have been laid down in the Pension Act (Pensioenwet / Pw). Insurers are subject to prudential supervision pursuant to the Financial Supervision Act (Wet op het financieel toezicht / Wft)

Investment strategies are established based on asset and liability studies. The overall goal is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk. These studies use for example return objectives and various investment instruments. Investment restrictions are updated regularly and they result in asset allocation mix and hedges.

The contributions to the retirement benefit plan of Aegon Nederland are paid by both the employees and the employer, with the employer contribution being variable[5]. The benefits covered are retirement benefits, disability, death and survivor pension and are based on an average wage system. The defined benefit plans were unfunded by EUR 2,628 million at December 31, 2017. (2016: EUR 3,121 million). The defined benefit plans are largely backed by investment, although these assets do not qualify as ‘plan assets’ as defined by IFRS. The average remaining duration of the defined benefits obligation is 19.6 years (2016: 19.8 years).

Sale of UMG

As a consequence of the sale of UMG to Aon Groep Nederland on October 31, 2017, the defined benefit obligation (DBO) and the assets backing the DBO related to UMG have been derecognized. This resulted in a decrease of the ‘DBO’ and ‘insurance contracts for general account’ of EUR 478 million. On the other hand the pension contract between UMG and Aegon Levensverzekering N.V. is no longer eliminated. This resulted in an increase of the ‘insurance contracts for risk of policy holders’ and ‘investments for account of policyholders’ of EUR 442 million.

Plan amendments

The minimum tax-qualified retirement age for occupational retirement plans in the Netherlands is triggered by an increase in average life expectancy as determined by the Central Bureau of Statistics. Effective January 1, 2018, the tax-qualified retirement age in combination with the maximum annual benefit accrual of 1.875% becomes 68. As a result Aegon has changed the retirement age of its pension plan from 67 to 68 years as from January 1 2018.

[5]Aegon Nederland deducts employee contributions from the total pension expenses.

Other post-employment benefit plans
Aegon Nederland also has a post-retirement medical plan that contributes to the health care coverage of employees and beneficiaries after retirement. For this plan, Aegon Nederland has the responsibility to administer the plan in accordance with its terms, and decides on questions related to eligibility and determines plan provisions and benefit amounts. In addition, Aegon Nederland has the obligation to interpret the provisions of the plans, and to comply with any statutory reporting and disclosure requirements. Finally, Aegon Nederland reviews the terms of the plans and makes changes to the plans if and when appropriate. The liabilities related to these other post-employment benefit plans are fully unfunded and amount to EUR 65 million at December 31, 2017 (2016: EUR 68 million). The weighted average duration of the other post-employment benefit plans is 11.9 years (2016: 10.8 years).

Actuarial assumptions used to determine benefit obligations at year-end[6]
The principal actuarial assumptions that apply for the year-ended December 31 are as follows:

	2017	2016
Demographic actuarial assumptions:		
Mortality	NL mortality table*	NL mortality table**
Financial actuarial assumptions:		
Discount rate (shock + / - 100 basis points)	2.09%	1.79%
Wage inflation (shock + / - 100 basis points	curve 2017	curve 2016
Indexation (shock + / - 25 basis points)	44.10% of curve 2017	45.20% of curve 2016

*Dutch Actuarial Society 2017 prospective mortality table with minor methodology adjustments.
**Dutch Actuarial Society 2013 prospective mortality table with minor methodology adjustments.
These tables are regularly assessed against the most recent mortality trends.

The principal actuarial assumptions have an effect on the amounts reported for the defined benefit obligation. A change as indicated in the table below in the principal actuarial assumptions of the retirement benefit plan would have the following effects per year-end:

Estimate approximate effects on the defined benefit obligation in 2017
In EUR million

	+	-
Demographic actuarial assumptions:		
Mortality rate (shock + / - 10% mortality rate)	-69	77
Financial actuarial assumptions:		
Discount rate (shock + / - 100 basis points)	-447	605
Wage inflation (shock + / - 100 basis points	16	-16
Indexation (shock + / - 25 basis points)	140	-128

[6] Based on prospective mortality table of the Dutch Actuarial Society with minor methodology adjustments. These tables are regularly assessed against the most recent mortality trends.

Estimate approximate effects on the defined benefit obligation in 2016
In EUR million

	+	-
Demographic actuarial assumptions:		
Mortality rate (shock + / - 10% mortality rate)	-83	94
Financial actuarial assumptions:		
Discount rate (shock + / - 100 basis points)	-545	732
Wage inflation (shock + / - 100 basis points	19	-19
Indexation (shock + / - 25 basis points)	170	-158

Demographic assumptions

Mortality (shock + / - 10% mortality rate)
The mortality table used is the projected Aegon table which is annually updated for experience results. Changing the mortality rates changes the cash flow expectations. Increasing (decreasing) the mortality rates for one year decreases (increases) the defined benefit obligation. Using the same discount rate, but other expected cash flows determines the quantitative effect.

Economic assumptions

Discount rate (shock + / - 100 basis points)
The discount rate used in determining the defined benefit obligation is based on high quality (AA rated) corporate bonds. Increasing (decreasing) the discount rate decreases (increases) the value of the defined benefit obligation.

Wage inflation rate (shock + / - 100 basis points)
The benefits covered under the plans are based on an average wage system. This curve used as inflation rate is the proxy for the Dutch Consumer Price Index in the projections of the defined benefit obligation. Changing the wage inflation rate changes the expected benefits. Increasing (decreasing) the wage inflation rate increases (decreases) the value of the defined benefit obligation.

Indexation (shock + / - 25 basis points)
The benefits covered under the plans are chiefly dependent on price inflation. This curve used as indexation rate is a percentage of the proxy for the Dutch Consumer Price Index in the projections of the defined benefit obligation. The percentage indexation is determined taking into account the price inflation curve and the amount available in the indexation depot. Increasing (decreasing) indexation increases (decreases) the value of the defined benefit obligation.

The above sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognized within the statement of financial position.

Changes in assumptions

Change of discount rate
The discount rate changed form 1.79% to 2.09%. This increase is caused by market movements. Interest rates at all maturities have increased over the year form about 20bps at 15 years to 30bps at 40 years. Furthermore the credits with a long maturity pull the curve up before the extrapolation point which strengthens the effect even more.

Change of mortality rates
During 2017 the mortality table is adjusted, the Aegon 2017 mortality table. Also the experience adjustments have been updated during 2017. In 2017 a new gender–age-bucket experience methodology has been developed which differentiates the experience mortality more granular in 4 different experience buckets. For each plan member a bucket is assigned according to the methodology. This results in a loss on the defined benefit obligation in 2017.

Change of indexation benefits of active and inactive participants
Last year the expected indexation rate was 45.20% of the price inflation curve. This percentage is estimated based on the indexation depot, since indexation is conditional on the means available from the indexation depot. Following the price inflation curve as per December 31, 2017, the expected indexation rate has been updated based on the expected indexation depot as per December 1, 2017. The resulting indexation rate is 44.10% of the price inflation curve. As a consequence of the update of the indexation rate a gain on the defined benefit obligation arises during 2017.

	Retirement benefit plans	Other post-empl. benefit plans	Total
2018	80	4	84
2019	81	4	85
2020	82	4	86
2021	83	4	87
2022	83	4	87
2023-2027	429	17	446

Expected contributions
The contributions to the defined benefit plans for the next annual reporting period are expected to be in line with current year’s contributions.

26. Deferred tax

	2017	2016
Deferred tax assets	908	942
Deferred tax liabilities	1.121	1.225
Total net deferred tax liability / (asset)	**212**	**284**

Movement in deferred tax

2017	Real estate	Financial assets	Insurance contracts	Def. expenses VOBA and intang. assets	Defined benefit plan	Other	Total 2017
At January 1	397	822	-884	3	-58	4	284
Charged to income statement	60	-28	-58	-1	68	-3	37
Charged to equity	-	-172	34	-	36	-	-102
Other	-	-8	-	2	-	-	-6
At December 31	**457**	**613**	**-908**	**3**	**47**	**1**	**212**

2016	Real estate	Financial assets	Insurance contracts	Def. expenses VOBA and intang. Assets	Defined benefit plan	Other	Total 2016
At January 1	351	552	-570	8	2	27	370
Charged to income statement	45	-21	40	-6	23	-23	57
Charged to equity	-	291	-354	-	-82	-	-144
At December 31	**397**	**822**	**-884**	**3**	**-58**	**4**	**284**

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.

Deferred tax liabilities for prepayments and other taxes payable on the undistributed profits of certain subsidiaries are not recognized. These undistributed profits amounted to EUR 1,759 million, with a potential tax claim of EUR 440 million.

Loss carry forward
At year-end, there were no deferred tax assets for pre-consolidation losses available for carry forward against future taxable profits (2016: nil).

27. Other liabilities and accruals

	Note	2017	2016
Other liabilities	27.1	2.255	2.676
Accruals	27.2	138	95
Total		**2.393**	**2.771**

27.1. Other liabilities

	2017	2016
Payables due to policyholders	387	435
Payables out of reinsurance	61	74
Investment creditors	281	600
Income tax payable	75	154
Social security and taxes payable	58	59
Current account with group companies	22	62
Cash collateral	232	94
Repurchase agreements	612	734
Share appreciation rights and LTIP	12	11
Other creditors	516	452
Total	**2.255**	**2.676**
Current	1.601	1.938
Non-current	655	738
	2.255	**2.676**

The carrying amounts disclosed reasonably approximate the fair values at year end, given the predominantly current nature of the other liabilities.

27.2. 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.

28. Premium income and premiums to reinsurers

	2017		2016	
	Gross	Reinsurance	Gross	Reinsurance
Life	1.854	9	2.012	8
Non-life	351	7	476	5
Total	**2.205**	**16**	**2.488**	**13**

Life

Premiums at the business line Life decreased which is partly caused by a shift from traditional pension products to PPI, for which Aegon receives fees, and partly due to ongoing strong price competition, especially in the midmarket segment. Furthermore, premiums were lower than last year due to expired contracts which could not be offset by new production. The single premiums were also lower than in 2016, mainly due to the declining market for individual life insurance products as a result of strong competition from bank saving products.

Non-Life

Premiums from continuing operations

	2017	2016
Accidents and illness	203.056	205.938
Motor vehicles;	21.674	18.381
Motor vehicles civil liability	35.245	37.142
Transport insurance	89	102
Fire	30.806	30.135
Other damage to property	30.128	29.416
General liability	12.935	12.660
Legal aid;	14.370	13.963
Relief operations	2.317	2.352
Total	**350.621**	**350.089**

Premium revenues of business line Non-Life, consisting of Accident and Health and General Insurance, decreased by EUR 125 million. This is mainly caused by the divestment of the non-strategic commercial portfolio in 2016. The premiums from continuing operations in 2017 have not changed significantly compared to 2016. The damages from continues operations and outstanding debt claims are lower in 2017, mainly due to a change of the WIA model and favorable claim developments across the different lines of business. The operating costs increased due to the change in the Aegon's cost allocation model, higher allocated project expenses and several smaller one-off items.

29. Investment income

	2017	2016
Investment income related to general account	1.684	1.620
Investment income for account of policyholders	490	514
	2.173	**2.134**

Investment income consists of:

	2017	2016
Interest income out of:		
- Debt securities	650	741
- Loans	1.189	1.212
- Other investments	70	-76
Dividend income from shares	210	203
Rental income from real estate	55	54
Total	**2.173**	**2.134**

Interest income accrued on impaired financial assets	8	13
Interest income on financial assets that are carried at fair value through profit or loss	1.573	1.656

Investment income from financial assets held for general account:

	2017	2016
Available-for-sale	367	429
Loans	1.194	1.218
Fair value through profit or loss	3	1
Real estate	55	54
Derivatives	46	-99
Other	19	17
Total	**1.684**	**1.620**

30. Fee and commission income

	2017	2016
Commissions from intermediary activities	149	184
Fee income from asset management	78	81
Administration fee income	102	88
Total	**329**	**353**

31. Results from financial transactions

	2017	2016
Realized gains / (losses) on financial investments	185	188
Gains / (losses) on investments in real estate	126	91
Net fair value change of derivatives	-1.058	678
Net fair value change on financial assets at fair value through profit or loss for account of policyholder	738	1.305
Net foreign currency gains / (losses)	-28	6
Total	**-38**	**2.268**

Realized gains and losses on financial investments

	2017	2016
Shares (AFS)	45	73
Debt securities and money market investments (AFS)	138	116
Loans	1	-1
Total	**185**	**188**

Net fair value change of derivatives comprise:

	2017	2016
Net fair value change on economic hedges where no hedge accounting is applied	-1.045	782
Net fair value change on bifurcated embedded derivatives	-4	-123
Ineffectiveness hedge accounting / amortization base adjustment	-9	19
Total	**-1.058**	**678**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2017	2016
Fair value change on hedging instruments in a fair value hedge	126	-176
Fair value change on hedged items in fair value hedge	-135	195
Of which amortization of the base-adjustment	*-20*	*8*
Ineffectiveness fair value hedge / amortization base adjustment	**-9**	**19**

The table above shows amongst others the fair value movements of bifurcated embedded derivatives (minimum guarantees on unit-linked policies) and the fair value of derivatives to hedge certain risks in these guarantees and the guarantees included in group contracts and traditional products.

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

	2017	2016
Shares	470	577
Debt securities and money market investments	3	551
Other	265	177
Total	**738**	**1.305**

32. Other income

Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG), an independent financial advisory group, to Aon Groep Nederland for EUR 295 million (EUR 172 million, net of cash). The transaction is consistent with Aegon Nederland's strategic objective to optimize its portfolio across its businesses. The divestment lead to a book gain of EUR 207 million pre-tax, which is reported as “other income”. As a consequence of the sale the defined benefit obligation (DBO) and the assets backing the DBO related to UMG have been derecognized. Aegon Nederland indemnifies and hold UMG and Aon Groep Nederland harmless for and against any damage suffered or incurred which are the result of the Unit Linked Insurance Claims, for a maximum of 10 years after the completion date. The aggregate liability for Aegon Nederland is maximized at an amount equal to the sell price (EUR 295 million). At this time, due to the nature and the type of Unit Linked Insurance Claims, Aegon Nederland is unable to quantify a range or the timing of the financial impact, if any. Therefore no contingent liability has been recognized.

In 2016 an amount of EUR 12 million was reported for the sale of the commercial line of the non-life business from Aegon Nederland’s non-life subsidiary Aegon Schadeverzekering to Allianz Benelux.

33. Policyholder claims and benefits

	2017	2016
Claims and benefits paid to policyholders	4.430	3.726
Change in valuation of liabilities for insurance and investment contracts	-1.462	1.673
Total	**2.968**	**5.398**

Policyholders claims and benefits, includes claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. The lower claims and higher benefits paid to policyholders compared to 2016 is related to a large contract buy-out in 2017. The changes in valuation of liabilities for insurance and investment contracts is the result of fair value changes of the guarantee provision and insurance contracts for account of policyholders as a result of decrease in interest rates. The change in valuation of liabilities for insurance and investment contracts include a gain of EUR 989 million (2016: loss of EUR 719 million) regarding fair value movements of guarantees.

The policyholders claims and benefits from continuing operations for Aegon non-life business decreased in 2017 by EUR 78 million due to the refined WIA model used in the WIA provision calculation (for more details see note 3.2 Changes in estimates as well), more favorable actual claims and more favorable AOV claims and benefits than expected.

34. Profit sharing

	2017	2016
Surplus interest bonuses	1	3
Profit appropriated to policyholders	12	37
Total	**13**	**40**

35. Commissions and expenses

	2017	2016
Commissions	57	99
Employee expenses	479	485
Administration expenses	386	376
Deferred expenses	-11	-11
Amortization of deferred expenses	19	24
Amortization of VOBA	8	8
Total	**938**	**981**

Administration expenses

Administration expenses include depreciation and amortization. See the breakdown below.

	2017	2016
Depreciation of equipment	11	11
Amortization of software	3	4
Depreciation of real estate held for own use	2	2
Total	**16**	**17**

Employee expenses

	2017	2016
Salaries	228	232
Post-employment benefit costs	135	133
Social security charges	34	38
Other personnel costs	80	82
Shares, share appreciation rights, share options and LTIP	2	1
Total	**479**	**485**

Employees

The average number of employees is 4,113, including 161 agents (2016: 4,500, including 264 agents). Due to the sale of UMG and IAK the number of employees decreased as per 31 October 2017 by approximately 1,200 employees.

Variable compensation Identified Staff (LTIP)

Members of the Board of Directors as well as other selected jobholders have been defined as 'Identified Staff' in accordance with the rules applicable to them and their interpretations by relevant authorities. Of these, the Dutch 2015 Act on compensation in the financial sector (Wet beloningsbeleid financiële ondernemingen Wft), the Dutch 2014 Decree on sound remuneration policy (Regeling beheerst beloningsbeleid 2014) are prominent examples. The rules have been adopted in Aegon N.V.'s Global Remuneration Framework and consistently applied within Aegon Nederland. After the performance period, and based on the framework, variable compensation, if any, is partially made available and partly deferred. Variable compensation is paid in both cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam during the period between December 15, preceding a plan year and January 15, of the plan year. The performance indicators apply over a performance period of one year and consist of Aegon N.V. and/or Aegon Nederland targets (both financial and non-financial) set by the Supervisory Board or the remuneration committee and personal/strategic targets. The conditional grant of variable compensation is also dependent on continued employment of the individual employee to whom the rights have been granted. An ex-post assessment is applicable to determine whether allocated (unvested) variable compensation should become unconditional or should be adjusted. In addition, for Members of the Board of Directors, Aegon Nederland's Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested. For members of the Board of Directors all variable compensation has vested after three years following the performance period. At vesting, the variable compensation is transferred to the individual employees. Additional holding periods may apply for vested shares. Members of the Board of Directors are not entitled to execute any transactions regarding the shares for a period of three years following vesting (with the exception of shares withheld or sold to cover for the payment of any applicable taxes, social security premiums and possible other deductions by the government due for which the company holds a withholding obligation in connection with the vesting of the shares).

In compliance with regulations under Dutch law, no transactions regarding the shares may be exercised in blackout periods.

	2013	2014	2015	2016	2017	Total
Number of shares conditionally granted*	195.770	101.330	147.206	184.102	106.556	734.964
Number of shares allocated	238.553	127.075	144.352	157.500	-	667.480

	2013	2014	2015	2016	2017
Volume weighted average price used for grant in EUR	4.917	6.739	6.106	5.129	4.933
Fair value of shares at grant date in EUR	4.898 to 5.230	4.626 to 5.230	4.316 to 5.230	3.990 to 4.898	4.040 to 4.933

*Number of shares conditionally granted based on the at target number of grants made that could increase or decrease subject to the actual performance attained

2017	2013	2014	2015	2016	2017	Total
Unvested at January 1	44.212	47.254	78.912	184.102	-	354.480
Reversal conditionally granted	-	-	-	-184.102	-	-184.102
Number of shares conditionally granted*	-	-	-	-	106.556	106.556
Number of shares allocated	-	-	-	157.500	-	157.500
Number of shares vested	-44.212	-23.627	-26.304	-70.824	-	-164.967
Unvested at December 31	**-**	**23.627**	**52.608**	**86.676**	**106.556**	**269.467**

2016	2012	2013	2014	2015	2016	Total
Unvested at January 1	81.165	86.784	69.168	147.206	-	384.323
Reversal conditionally granted	-	-	-	-147.206	-	-147.206
Number of shares conditionally granted*	-	-	-	-	184.102	184.102
Number of shares allocated	-	-	-	144.352	-	144.352
Number of shares vested	-81.165	-42.572	-21.914	-65.440	-	-211.091
Unvested at December 31	**-**	**44.212**	**47.254**	**78.912**	**184.102**	**354.480**

*Number of shares conditionally granted based on the at target number of grants made that could increase or decrease subject to the actual performance attained

All share plans are recognized in the financial statements of Aegon Nederland as cash-settled share based payment transactions since all grants are settled by Aegon Nederland in Aegon N.V. shares via the current account with Aegon N.V. For the vested tranches in 2016 Aegon Nederland introduced a net settlement option for participants to meet corporate income tax obligations. This means that Aegon will not sell shares on the market, but hold these shares within Aegon and settle directly with the tax authorities in cash rather than in shares.

The liability related to the above mentioned plan (both cash and Aegon NV shares) was EUR 12.3 million and is measured at fair value (2016: EUR 10.9 million), refer to note 27.1 ‘Other liabilities’. The related expenses were EUR 2.1 million (2016: 0.5 EUR million).

Aegon Nederland provides for the full provision of the LTIP (both for Aegon N.V. and Aegon Nederland) and recharges the LTIP for employees that work solely for Aegon N.V. to Aegon N.V. Therefore only Aegon Nederland employees that solely work for Aegon Nederland are disclosed the share movement analysis.

Remuneration Board of Directors
Current and former members of the Board of Directors are regarded as key management personnel. The remuneration for current and former directors charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code is set out below (amounts in euro).

	2017	2016
Members of the Board of Directors		
Gross salary and social security contributions	3.078.093	2.869.723
Pension premium	282.611	389.150
Other benefits	532.718	432.910
Total	**3.893.421**	**3.691.783**

Variable compensation for members of the Board of Directors

As of 2010 rights have been granted to directors in the form of Long-term Incentive Plans under the Variable compensation plan (‘LTIP’).

Under the 2017 LTIP, members of the Board of Directors were granted the right to receive 33,040 Aegon N.V. shares along with EUR 0.2 million in cash if certain performance indicators were met. In 2018 the actual numbers of shares and amount of cash granted will be determined. These shares and cash will be transferred to the board members in phases in the period 2018 to 2021.

Under the 2016 LTIP, members of the Board of Directors were granted the right to receive 81,450 Aegon N.V. shares along with EUR 0.4 million in cash if certain performance indicators were met. In 2017 70,042 shares were eventually granted, along with EUR 0.4 million in cash. These shares and cash are transferred to the board members in phases in the period 2017 to 2020.

Under the 2015 LTIP, members of the Board of Directors were granted the right to receive 93,785 Aegon N.V. shares along with EUR 0.6 million in cash if certain performance indicators were met. In 2016 88,776 shares were eventually granted, along with EUR 0.5 million in cash. These shares and cash are transferred to the board members in phases in the period 2016 to 2019.

Under the 2014 LTIP, members of the Board of Directors were granted the right to receive (a maximum of) 68,428 Aegon N.V. shares along with EUR 0.6 million in cash if certain performance indicators were met. In 2015 81,088 shares were eventually granted, along with EUR 0.5 million in cash. These shares and cash are transferred to the board members in phases in the period 2015 to 2018.

Under the 2013 LTIP, members of the Board of Directors were granted the right to receive (a maximum of) 142,813 Aegon N.V. shares along with EUR 0.9 million in cash if certain performance indicators were met. In 2014 145,214 shares were eventually granted, along with EUR 0.7 million in cash. These shares and cash are transferred to the board members in phases in the period 2014 to 2017.

Under the 2012 LTIP, members of the Board of Directors were granted the right to receive (a maximum of) 267,912 Aegon N.V. shares along with EUR 1.0 million in cash if certain performance indicators were met. In 2013 289,226 shares were eventually granted, along with EUR 0.8 million in cash. These shares and cash were transferred to the board members in phases in the period 2013 to 2016.

The following table shows the movements in shares under the LTIP solely for the Board of Directors These amounts are extracted from the movement table of the shares for “Variable compensation Identified Staff”, that includes both Board of Directors as well as other employees.

1

	2013	2014	2015	2016	2017	Total
Number of shares conditionally granted*	142.813	68.428	93.785	81.450	33.040	419.516
Number of shares allocated	145.214	81.088	88.776	70.042	-	385.120

	2013	2014	2015	2016	2017
Volume weighted average price used for grant in EUR	4.917	6.739	6.106	5.129	4.933
Fair value of shares at grant date in EUR	4.898 to 5.230	4.626 to 5.230	4.316 to 5.230	3.990 to 4.898	4.040 to 4.933

*Number of shares conditionally granted based on the at target number of grants made that could increase or decrease subject to the actual performance attained

2017	2013	2014	2015	2016	2017	Total
Unvested at January 1	29.043	32.434	53.265	81.450	-	196.192
Reversal conditionally granted	-	-	-	-81.450	-	-81.450
Number of shares conditionally granted*	-	-	-	-	33.040	33.040
Number of shares allocated	-	-	-	70.042	-	70.042
Number of shares vested	-29.043	-15.992	-15.855	-25.768	-	-86.658
Unvested at December 31	**-**	**16.442**	**37.410**	**44.274**	**33.040**	**131.166**

2016	2012	2013	2014	2015	2016	Total
Unvested at January 1	49.375	58.086	48.651	93.785	-	249.897
Reversal conditionally granted	-	-	-	-93.785	-	-93.785
Number of shares conditionally granted*	-	-	-	-	81.450	81.450
Number of shares allocated	-	-	-	88.776	-	88.776
Number of shares vested	-49.375	-29.043	-16.217	-35.511	-	-130.146
Unvested at December 31	**-**	**29.043**	**32.434**	**53.265**	**81.450**	**196.192**

*Number of shares conditionally granted based on the at target number of grants made that could increase or decrease subject to the actual performance attained

Mortgage loans Board of Directors

On the reporting date, the current members of the Board of Directors had mortgage loans totaling EUR 2,984 thousand from a company associated with Aegon Nederland (2016: EUR 973 thousand) at variable interest rates ranging from 1.79 to 5.30% (2016: 2.20% 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 930 thousand (2016: EUR 0) and repayments amount to EUR 25 thousand (2016: EUR 424 thousand). Other movements within mortgages are the result of changes in the composition of the Board of Directors. No other loans, guarantees or advance payments exist.

Remuneration Supervisory Board

Members and former members of the Supervisory Board are regarded as key management personnel. The remuneration for current and former supervisory board members charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 156 thousand (2016: EUR 144 thousand). This remuneration consists entirely of gross pay and the employer's share of social security charges. The members of the Supervisory Board employed by Aegon N.V. did not receive any remuneration for their membership. No payments were made in connection with severance schemes; no remuneration or rights attaching to shares were granted.

Mortgage loans Supervisory Board
On the reporting date, none of the Supervisory Board members had mortgage loans from a company associated with Aegon Nederland and no other balances such as loans, guarantees or advance payments exist.

Remuneration Independent Auditor
PricewaterhouseCoopers Accountants N.V. has served as Aegon Nederland's independent public auditor during 2017 and audited these financial statements. The fees for services rendered to Aegon Nederland need not be disclosed in this Annual Report, based on article 3:382 of Book 2 of the Dutch 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.

36. Impairment charges

	2017	2016
Impairment charges comprise:		
Loans	16	12
Other	1	1
Total net impairment charges	**17**	**12**

37. Interest charges and related fees

	2017	2016
Borrowings	26	36
Short-term liabilities and deposits	143	155
Total	**168**	**191**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	168	191

38. Other charges

There were no other charges recognized during 2017 and 2016.

39. Corporate income tax

	2017	2016
Current tax		
- current year	96	88
- adjustments to prior year	35	11
Deferred tax		
- origination / (reversal) of temporary differences	71	67
- adjustment to prior year	-34	-10
Income tax for the period (income) / charge	**168**	**156**

Reconciliation between standard and effective corporate income tax:

	2017	2016
Income before tax	895	726
Income tax calculated using weighted average applicable statutory rates	224	181
Difference due to the effects of:		
- non-taxable income	-58	-27
- non-tax deductible expenses	1	1
- adjustments to prior years	1	1
Income tax for the period (income) / charge	**168**	**156**

The weighted average applicable statutory tax rate for Aegon Nederland in 2017 and 2016 was 25% and will remain the same in 2018.

	2017	2016
Items that will not be reclassified to profit and loss:		
Remeasurements of defined benefit plans	36	-82
	37	**-82**
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation of available-for-sale investments	-93	-17
Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments	-45	-45
Gains / losses on revaluation of investments in joint ventures	-	1
	-139	**-62**
Total income tax related to components of other comprehensive income	**-102**	**-144**

40. Fair value of assets and liabilities

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

40.1. 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.

2017	Level I	Level II	Level III	Total 2017
Assets carried at fair value				
AFS investments				
- Shares	-	1	44	45
- Debt securities	15.468	4.132	184	19.784
- Other	-	21	9	30
Real estate held for own use	-	-	115	115
FVTPL investments				
- Shares	203	1.646	604	2.453
- Debt securities	-	3	-	3
- Investments for account of policyholders	12.733	9.509	1.332	23.574
- Derivatives	47	4.105	24	4.177
- Investments in real estate	-	-	1.495	1.495
Total assets	**28.452**	**19.417**	**3.807**	**51.676**
Liabilities carried at fair value				
- Investment contracts for account of policyholders	-	133	-	133
- Derivatives	4	4.086	1.550	5.640
Total liabilities	**4**	**4.219**	**1.550**	**5.773**

2016	Level I	Level II	Level III	Total 2016
Assets carried at fair value				
AFS investments				
- Shares	89	1	62	152
- Debt securities	15.520	6.822	179	22.521
- Other	-	358	32	390
Real estate held for own use	-	-	120	120
FVTPL investments				
- Shares	103	1.250	50	1.404
- Investments for account of policyholders	13.904	10.171	1.217	25.292
- Derivatives	25	5.285	73	5.384
- Investments in real estate	-	-	1.238	1.238
Total assets	**29.641**	**23.887**	**2.972**	**56.501**
Liabilities carried at fair value				
- Investment contracts for account of policyholders	-	466	-	466
- Derivatives	30	4.690	1.559	6.280
Total liabilities	**30**	**5.157**	**1.559**	**6.746**

Movements in Level III financial instruments measured at fair value

2017	As at 1-1-2017	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2017	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	62	20	-12	41	-67	-	44	20
- Debt securities	179	1	-1	13	-5	-3	184	1
- Other	32	12	-11	-	-25	-	9	12
Real estate held for own use	120	-2	1	-4	-	-	115	-2
FVTPL investments								
- Shares	50	-11	-	583	-18	-	604	-11
- Investments for account of policyholders	1.217	26	-	600	-527	16	1.332	25
- Derivatives	73	-28	-	-	-21	-	24	-28
- Investments in real estate	1.238	126	-	237	-106	-	1.495	126
Total assets	**2.972**	**143**	**-22**	**1.471**	**-770**	**13**	**3.807**	**142**
Liabilities carried at fair value								
- Derivatives	1.559	-9	-	-	-	-	1.550	-9
Total liabilities	**1.559**	**-9**	**-**	**-**	**-**	**-**	**1.550**	**-9**

2016	As at 1-1-2016	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2016	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	73	15	-12	-	-15	-	62	15
- Debt securities	2.079	1	6	42	-47	-1.902	179	1
- Other	66	16	-13	-	-38	-	32	16
Real estate held for own use	116	-2	-	7	-		120	-2
FVTPL investments								
- Shares	-	3	-	48	-	-	50	3
- Investments for account of policyholders	1.192	21	-	393	-312	-77	1.217	21
- Derivatives	46	-17	-	44	-	-	73	-17
- Investments in real estate	1.148	91	-	88	-88	-	1.238	91
Total assets	**4.720**	**128**	**-19**	**622**	**-499**	**-1.979**	**2.972**	**128**
Liabilities carried at fair value								
- Derivatives	1.437	123	-	-1	-	-	1.559	123
Total liabilities	**1.437**	**123**	**-**	**-1**	**-**	**-**	**1.559**	**123**

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.

Some OTC derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs 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. The most significant unobservable input for these derivatives is the interest rate due to the long duration of the derivatives. However, the interest rate risk is taken into account in our interest rate hedging strategy. Therefor the net most significant unobservable input is the (projected) mortality development.

Significant transfers between Levels I/II/III

During 2017 EUR 33 million were transferred from level II to level III as no longer quoted prices were available. In addition EUR 20 million was transferred from level III to II as quoted prices were available.

During 2016, Aegon Nederland transferred certain financial instruments from Level II to Level I of the fair value hierarchy. The change in level was mainly the result of a return of activity in the market for these securities and that for these securities the fair value could be determined using observable market transactions or corroborated broker quotes for the same or similar instruments.

During 2016 there was one transfer from Level II to Level III. The transfer involved asset backed securities bonds for an amount of EUR 16 million. In the past there were more brokers prices available. In the fourth quarter the valuation is based on one Broker quote which means that the instrument is deemed more illiquid. The transfers from Level III to Level II are all CLO bonds for an amount of EUR 1,918 million. During 2016 the price source was changed from an internal model which is created by FO to an external vendor Markit. The change to an external party valuation and a valuation which is using more market observable data resulted in the level change.

During 2016, in respect of the FVTPL investments for account of policyholders one security was transferred from level II to level III with a market value of EUR 4 million which relates to a Belgian Finance company for which a broker quote is used and no Bloomberg price available. Level III is used because there is no vendor but only one broker quote. EUR 22 million was transferred from level III to level I. This relates to one security (supranational, issued by the International Bank for Reconstruction) which was priced based on one broker quote and classified as level III but since the third quarter of 2016 a vendor is used for pricing and therefore classified as level I. Furthermore, EUR 59 million transferred from level III to II. This relates to several CLO’s.

There were no other significant transfers.

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.

2017	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	44	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	184	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Derivatives	24	Discounted cash flow	Mortality	5%	5%
Investments in real estate	1.495	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	115	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**1.861**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	1.550	Discounted cash flow	Credit spread	0,2%	0,2%
Total liabilities at fair value	**1.550**				

*Not applicable (n.a.) has been included when no significant unobservable assumption has been identified and used or if the unobservable assumptions were not available.

2016	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	62	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	179	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Derivatives	73	Discounted cash flow	Mortality	5%	5%
Investments in real estate	1.238	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	120	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**1.673**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	1.559	Discounted cash flow	Credit spread	0,4%	0,4%
Total liabilities at fair value	**1.559**				

* Not applicable (n.a.) has been included when no significant unobservable assumption has been identified and used or if the unobservable assumptions were not available.

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 Nederland. 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’.

2017	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	24	Mortality	a	-29	45
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	1.550	Credit spread	b	-43	44

2016	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	73	Mortality	a	-40	59
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives in insurance contracts	1.559	Credit spread	b	-48	50

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.

a. Some OTC derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs 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.
b. 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 Nederland 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 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.).

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

2017	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	26.802	30.926	-	-	30.926	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	3.590	4.038	-	-	4.038	Discounted cash flow	
Deposits with financial institutions	50	50	-	50	-	Discounted cash flow	
Policy loans	2	2	-	2	-	Discounted cash flow	
Liabilities							
Savings deposits	9.568	9.676	-	-	9.676	Discounted cash flow	
Investment contracts	219	214	-	-	214	Discounted cash flow	

2016	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	25.357	29.479	-	-	29.479	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	3.124	3.510	-	-	3.510	Discounted cash flow	
Deposits with financial institutions	40	40	-	40	-	Discounted cash flow	
Policy loans	3	3	-	3	-	Discounted cash flow	
Liabilities							
Savings deposits	8.814	8.962	-	-	8.962	Discounted cash flow	
Investment contracts	229	230	-	-	230	Discounted cash flow	

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

40.1.1. Shares

When available, Aegon Nederland 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. Also for unquoted shares the net asset value may be considered the best approximation to the fair value.

Net asset value is the value of an entity's assets minus the value of its liabilities and may be the same as the book value or the equity value of the entity.

40.1.2. 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 Nederland reviews the valuations each month and performs analytical procedures and trending analysis to ensure the fair values are appropriate.

40.1.3. Debt securities

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

Aegon Nederland’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 Nederland’s asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and a liquidity premium to account for the illiquid nature of these securities. The liquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the liquidity premium for private placement securities to the overall valuation is insignificant.

Aegon Nederland’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 Nederland uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Nederland 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 Nederland uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analysis, 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 Nederland starts by taking an observable credit spread from a similar bond of the given issuer, and then adjusts 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 Nederland 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.

40.1.4. Mortgage loans, policy loans and private loans
For private loans, fixed interest mortgage loans and other loans originated by Aegon Nederland, 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.

40.1.5. 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.

40.1.6. 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.

40.1.7. Derivatives

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

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

Aegon Nederland normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[7] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Nederland 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.

Aegon Nederland's valuation of its euro-denominated derivatives positions in the Netherlands is based on the Overnight Index Swap curve.

Some over-the-counter derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon Nederland 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 development or discount rate are the most significant unobservable inputs.

[7] International Swaps and Derivatives Associations

40.1.8. 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 financial 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 0.20% for the year-ended (2016: 0.40%).

Aegon extrapolates yield curves beyond market observable maturities. The discount rates converge linearly in 10 years to an Ultimate Forward Rate of 4.25% from the last liquid point. The uniform last liquid point for all Aegon's major currencies (EUR, USD and GBP) is set at 30 years.

The expected returns are based on risk-free rates. Aegon Nederland added a premium to reflect the credit spread as required. The credit spread is set by using the credit default swap 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).

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'.

40.1.9. Embedded derivatives in bank products

Some bifurcated derivatives embedded in bank products are not quoted in an active financial market. Valuation techniques are used to determine the fair values of these derivatives. Given the dynamic and complex nature of the cash flows relating to these derivatives, their fair values are often determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market prices and rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free interest rates, such as the London Inter-Bank Offered Rate (LIBOR) yield curve or the current rates on Dutch government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. As required for discounting cash flows, Aegon Nederland applies a credit spread to the risk-free interest rate when computing the guarantee provisions. This own credit spread is derived from the spread used in the market for credit default swaps in a reference portfolio of European life insurers (including Aegon N.V.).

40.1.10. Savings deposits and investment contracts

Savings deposits and investment contracts issued by Aegon Nederland 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 Interbank Offered Rate (LIBOR) swap rates and associated forward rates, the overnight index swap curve 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.

40.1.11. 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 Nederland uses a discounted cash flow method including yield curves such as deposit rates, floating rate and 3-month swap rates. In addition Aegon Nederland includes the own credit spread based on Aegon's credit default swap curve.

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

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

	2017		2016	
	Trading	Designated	Trading	Designated
Investments for general account	3	2.816	1	1.907
Investments for account of policyholders	-	23.574	-	25.292
Derivatives with positive values	4.141	36	5.367	17
Total financial assets at FVTPL	**4.144**	**26.426**	**5.367**	**27.216**

	2017		2016	
	Trading	Designated	Trading	Designated
Investment contracts	-	219	-	229
Investment contracts for account of policyholders	-	133	-	466
Liabilities for guarantees	-	4.719	-	5.542
Derivatives with negative values	3.784	1.856	4.264	2.016
Total financial liabilities at FVTPL	**3.784**	**6.927**	**4.264**	**8.253**

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:

	2017		2016	
	Trading	Designated	Trading	Designated
Net gains and losses	-1.038	690	776	1.213

<u>Investments for general account</u>

Aegon Nederland 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 Nederland 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).

Investments for account of policyholders

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 Nederland 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 Nederland's accounting policies, these assets have been designated as at fair value through profit or loss.

Investment contracts for account of policyholders

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.

Derivatives

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).

41. Commitment and contingencies

41.1. Investments contracted

In the normal course of business, Aegon Nederland has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2018. 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.

As part of its strategy to generate higher yield on its investments Aegon Nederland has committed itself, through certain subsidiaries, to invest in real estate, private loans, mortgages loans and receivables and investment funds (included in 'other') in future years. Comparative amounts were immaterial for investments with nil value in prior year.

Contracted purchases	2017	2016
Real estate	196	-
Private loans	614	-
Mortgage loans	2.993	320
Other	1.126	-

Contracted sales	2017	2016
Real estate	5	6
Mortgage loans	69	78

41.2. Other commitments and contingencies

Guarantees given	2017	2016
Standby letters of credit	12	29
Other guarantees	12	14

Aegon Nederland 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 Nederland 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. The future transfer price will be at the fair value at the investment date.

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG) for EUR 295 million to Aon Groep Nederland (the buyer). Under the share purchase agreement between Aegon Nederland and the buyer, Aegon Nederland indemnifies and holds the buyer and its group (including UMG) harmless for and against any damage suffered or incurred which is the result of the Unit Linked Insurances Claims until 2027 with respect to Unit Linked Policies in the portfolio of UMG prior to 1 January 2017. The aggregate liability for Aegon Nederland is maximized at an amount equal to the purchase price. At this time, due to the nature and the type of Unit Linked Insurance Claims, Aegon Nederland in unable to quantify a range or the timing of the financial impact, if any. Therefore no contingent liability has been recognized.

41.3. Off-balance sheet assets

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

41.4. Legal and arbitrary proceedings, regulatory proceedings and actions

Aegon Nederland 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 Nederland 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 Nederland 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 sold are complex and involve significant investment risks that may be passed on to Aegon Nederland´s customers. Aegon Nederland has, from time to time, received claims from certain current and former customers, and groups representing customers, in respect of certain products. Aegon Nederland 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 Nederland is not able to resolve some or all such matters in the manner that it expects. In certain instances, Aegon Nederland 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 Nederland conducts its business.

Aegon Nederland has defended and will continue to defend itself vigorously when Aegon Nederland believes claims are without merit. Aegon Nederland has also sought and intends to continue to seek to settle certain claims, including via policy modifications, in appropriate circumstances. Aegon Nederland refers to the settlement Aegon Nederland reached in 2009 with Stichting Verliespolis and Stichting Woekerpolisclaim in the Netherlands, two major customer interest groups. In 2012, Aegon Nederland 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 Nederland 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.

In addition, Aegon Nederland decided to reduce future policy costs for the large majority of its unit-linked portfolio. This 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 Nederland 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 Nederland´s business, results of operations and financial position.

In addition, the Netherlands 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 Nederland 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 ('active Ren van lantern'). 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 or 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 Nederland'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 Nederland), as well as the transparency of disclosure regarding such fees and charges and other product features and risks.

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 Nederland or to support potential claims against Aegon Nederland. Future claims based on emerging legal theories could have a material adverse effect on Aegon Nederland's businesses, results of operations and financial condition.

In recent years claims regarding unit-linked policies have also been handled by the Klachteninstituut Financiële Dienstverlening ('KIFID'). KIFID is an independent body that offers an alternative forum for customers to file complaints or claims regarding financial services. Its decisions may be appealed to the courts. In 2017 the Appeal Committee of KIFID rendered decisions against other insurers. There are claims pending with KIFID filed by customers over Aegon Nederland's products that arguably include similar allegations. At this time the decisions of KIFID and courts are far from homogenous. If KIFID were to finally decide unfavorably, 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.

Proceedings in which Aegon Nederland is involved

In September 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, 2016, 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. In June 2017 (and revised in December 2017), the court issued its verdict which upheld the principle that disclosures must be evaluated according to the standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose certain charges on a limited set of policies. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. This court decision has been appealed by both parties. Aegon expects the claims and litigation on unit-linked products to continue for the foreseeable future. Developments in similar cases against other Dutch insurers currently before regulators, KIFID and courts may also affect Aegon. 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.

Lawsuits have also been brought against providers of securities leasing products ('aandelenlease producten'). Although sales of securities leasing products ended more than a decade ago, litigation relating to these products has resurfaced. In 2016, the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that the financial institution was liable if a broker ('remisier') that advised on the sale of the institution's products, was not properly licensed. In July 2016, consumer interest group Platform Aandelenlease filed a claim against Aegon Bank regarding securities leasing product Sprintplan. Allegations include, among other things, a lack of a proper license of the brokers involved. In October 2017, the district court of The Hague ruled the case inadmissible and found in favor of Aegon that the Sprintplan liability had been conclusively determined in earlier proceedings and there were no grounds to hold further class action proceedings. The plaintiff appealed. The case is now pending at the court of appeal of The Hague. There is a long history of litigation regarding security leasing products – including two prior class actions regarding Sprintplan –, it cannot be excluded that these proceedings might have an adverse effect on Aegon's results of operations or financial position.

41.5. Capital commitments

	2017	2016
Share of contingent liabilities incurred in relation to interests in joint ventures	39	40

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

In addition, Amvest has unconditional obligations and planned total investments in real estate of EUR 1,248 million at year-end 2017 (2016: EUR 799 million). Of this, an amount of EUR 189 million is considered to be an unconditional obligation (2016: EUR 133 million). There are also contingent payment obligations for the acquisition of lands at year-end 2017 for a total amount of EUR 16 million (2016: EUR 16 million). The timing of this contingent consideration is uncertain and will in particular be dependent on the status of realization of the various projects.

41.6. Future lease payments

The future non-cancellable leases relate to office space lease and car lease from third parties. These are specified in the table below.

	2017	2016
Not later than 1 year	4	7
Between 1 and 5 years	12	17
Later than 5 years	14	18
	30	**42**

42. Transfers of financial assets

Transfers of financial assets occur when Aegon Nederland transfers contractual rights to receive cash flows of financial assets or when Aegon Nederland 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 Nederland is involved among others in the following transactions:

1. Transferred financial assets that are not derecognized in their entirety:
    a. Securities lending; whereby Aegon Nederland 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 Nederland 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 Nederland does not have a continuing involvement (normal sale);
3. Transferred financial assets that are derecognized in their entirety, but where Aegon Nederland 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 Nederland 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 Nederland has a continuing involvement and assets accepted and pledged as collateral.

42.1. 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.

2017	**AFS financial assets**	**Financial assets at FVTPL**
	Debt securities	Investments for account of policyholders
Carrying amount of assets	611	1.738
Carrying amount of associated liabilities (on balance)	-612	-232
Carrying amount of associated liabilities (off balance)	-	-1.550

2016	**AFS financial assets**	**Financial assets at FVTPL**
	Debt securities	Investments for account of policyholders
Carrying amount of assets	734	1.047
Carrying amount of associated liabilities (on balance)	-734	-93
Carrying amount of associated liabilities (off balance)	-	-991

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 Nederland 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 Nederland 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 lend.

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

Aegon Nederland 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 Nederland or its counterparty. Transactions requiring Aegon Nederland 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.

Assets accepted

Aegon Nederland 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 analysis 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	2017	2016
Carrying amount of transferred financial assets	1.738	1.047
Fair value of cash collateral received	-232	-93
Fair value of non-cash collateral received	-1.550	-991
Net exposure	**-45**	**-37**
Non-cash collateral that can be sold or repledged in the absence of default	1.550	991

Reverse repurchase agreements	2017	2016
Cash paid for reverse repurchase agreements	4.166	3.288
Fair value of non-cash collateral received	-4.166	-3.288
Net exposure	**-**	**-**

Non-cash collateral that can be sold or repledged in the absence of default	4.166	3.288
Non-cash collateral that has been sold or transferred	-	-

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

Aegon Nederland has no transferred financial assets that are derecognized in their entirety, but where it has continuing involvement as per year-end 2017 and 2016.

42.3. Assets pledged

Aegon Nederland pledges assets that are on its statement of financial position in securities borrowing transactions, in repurchase transactions and against borrowings. In addition, in order to trade derivatives on the various exchanges, Aegon Nederland posts margin as collateral. These transactions are conducted under terms that are usual and customary to standard borrowing, derivative and securities borrowing activities, as well as requirements determined by exchanges where a bank acts as intermediary.

Non-cash financial assets that are borrowed or purchased under agreement to resell are not recognized in the statement of financial position. 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 following table analyzes the carrying amount of collateral pledged and the corresponding amounts.

Assets pledged for repurchase agreements	2017	2016
Cash received	612	734
Pledged non-cash collateral	-612	-734
Net exposure	**-**	**-**

As part of Aegon Nederland’s funding program the mortgages related to the securitizations and warehouses have been pledged as security for notes and loans issued (refer to note 23 ‘borrowings and group loans’) and for subsidiary Aegon Bank mortgages are pledged for notes related to the Conditional Pass Through Covered Bond program. In addition, in order to trade derivatives on the various exchanges, Aegon Nederland posts margin as collateral.

43. 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 to offset 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 Nederland 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 Nederland 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 Nederland to facilitate Aegon Nederland’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 Nederland or its counterparty. Transactions requiring Aegon Nederland 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 borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

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

2017	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Collateral received (excluding surplus collateral)	**Net amount**
Derivatives	4.177	-	**4.177**	4.090	87	**-**
At December 31	**4.177**	**-**	**4.177**	**4.090**	**87**	**-**

2016	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Collateral received (excluding surplus collateral)	**Net amount**
Derivatives	5.384	-	**5.384**	4.721	573	**89**
At December 31	**5.384**	**-**	**5.384**	**4.721**	**573**	**89**

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

2017	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Collateral pledged (excluding surplus collateral)	
Derivatives	4.090	-	**4.090**	4.090	-	**-**
At December 31	**4.090**	**-**	**4.090**	**4.090**	**-**	**-**

2016	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Collateral pledged (excluding surplus collateral)	
Derivatives	4.721	-	**4.721**	4.721	-	**-**
At December 31	**4.721**	**-**	**4.721**	**4.721**	**-**	**-**

44. Group companies

44.1. Subsidiaries

The principal subsidiaries of Aegon Nederland are as follows:

Name	Country of incorporation	Primary business operation	% equity interest 2017	% equity interest 2016
AEGON Administratie B.V., The Hague	The Netherlands	Administration	100%	100%
AEGON Administratieve Dienstverlening B.V., The Hague	The Netherlands	Administration	100%	100%
Aegon Advies B.V., The Hague	The Netherlands	Broker/Dealer	100%	100%
Aegon Bank N.V., The Hague	The Netherlands	Banking	100%	100%
AEGON Bedrijfsfinanciering B.V., The Hague	The Netherlands	Finance	0%	100%
AEGON Bemiddeling B.V., The Hague	The Netherlands	Broker/Dealer	100%	100%
AEGON Global Investment Fund B.V.,	The Netherlands	Investment Banking	100%	100%
AEGON Hypotheken B.V., The Hague	The Netherlands	Mortgages and Credit ins	100%	100%
AEGON Infrastructure Services Nederland B.V., The Hague	The Netherlands	ICT	0%	100%
AEGON Innovation Investments B.V., The Hague	The Netherlands	Holding Company	100%	100%
AEGON Levensverzekering N.V., The Hague	The Netherlands	Insurance	100%	100%
Aegon PPI B.V., The Hague	The Netherlands	Life Insurance	100%	100%
AEGON Schadeverzekering N.V., The Hague	The Netherlands	Insurance	100%	100%
AEGON Spaarkas N.V., The Hague	The Netherlands	Insurance	100%	100%
Bagon B.V., The Hague	The Netherlands	Investment Banking	0%	100%
BS Loans B.V., The Hague	The Netherlands	Holding Company	100%	100%
CAPPITAL Premiepensioeninstelling B.V., Groningen	The Netherlands	Life Insurance	100%	100%
Nedasco B.V., Amersfoort	The Netherlands	Broker/Dealer	100%	100%
TKP Pensioen B.V., Groningen	The Netherlands	Pension Management	100%	100%
Unirobe Meeùs Groep B.V., The Hague	The Netherlands	Holding Company	0%	100%
Van Nierop Assuradeuren N.V., The Hague	The Netherlands	Life Insurance	100%	100%

Changes in group companies during the year:

- On January 1, 2017 as a consequence of the legal merger between Aegon Nederland (as acquiring company) and Aegon Bedrijfsfinanciering B.V., Aegon Infrastructure Services Nederland and Bagon B.V. (as disappearing companies), the disappearing companies ceased to exist.
- On January 1, 2017 as a consequence of the legal merger between eyeOpen Holding (as acquiring company) and eyeOpen Finance B.V. (as disappearing company) the disappearing company ceased to exist.
- On January 2, 2017, all the shares in the capital of eyeOpen N.V. were sold and transferred by eyeOpen Holding N.V. to Aegon Innovation Investments B.V..
- On January 3, 2017 as a consequence of the legal merger between eyeOpen (as acquiring company) and eyeOpen Holding (as disappearing company) the disappearing company ceased to exist.
- On January 3, 2017, the Articles of Association of eyeOpen N.V. were amended, whereby the name changed into Knab Advies & Bemiddeling N.V.
- On June 27, 2017 as a consequence of the merger between Aegon Vastgoed Holding B.V. (as acquiring company) and Aegon Woningen B.V., Aegon Living & Care Fund Participation B.V. and Aegon Dynamic Fund the disappearing ceased to exist on June 28, 2017.
- On June 27, 2017 as a consequence of the merger between Aegon Vastgoed Holding B.V. (as acquiring company) and Aegon Core Fund Participations B.V. (as disappearing company) the disappearing company ceased to exist on June 28, 2017.
- On June 29, 2017 as a consequence of the merger between Aegon Levensverzekering (as acquiring company) and Aegon Leven Beleggingen B.V. and Aegon Vastgoed Holding B.V. (as disappearing companies) the disappearing companies ceased to exist on June 30, 2017.
- On October 31, 2017 Aegon Nederland N.V. sold all the shares in Unirobe Meeùs Groep B.V..

Below the composition of Aegon Nederland's largest subsidiary Aegon Levensverzekering.

Name	**Country of incorporation**	**Primary business operation**	**% equity interest 2017**	**% equity interest 2016**
AEGON DL B.V., The Hague	The Netherlands	Investment Company	100%	0%
AEGON Leven Beleggingen B.V., The Hague	The Netherlands	Investment Company	0%	100%
AEGON Vastgoed Holding B.V., The Hague	The Netherlands	Holding Company	0%	100%
AEGON, d.s.s. a.s, Bratislava	Slovakia	Pension Management	100%	100%
AEGON Vast Goed III B.V.	The Netherlands	Investment Company	100%	100%
AEGON Vast Goed IV B.V.	The Netherlands	Investment Company	100%	100%
AMVEST Home Free B.V.	The Netherlands	Investment Company	100%	100%
Vastgoedmaatschappij Inpa B.V.	The Netherlands	Investment Company	100%	100%
Optas Pensioenen N.V., Rotterdam	The Netherlands	Insurance	100%	100%
US PENG, INC., Wilmington	United States	Investment Company	100%	100%

Changes in group companies during the year:

- On May 9, 2017, Aegon DL B.V. was incorporated. Aegon Levensverzekering is the sole shareholder.
- On June 29, 2017 as a consequence of the merger between Aegon Levensverzekering (as acquiring company) and Aegon Leven Beleggingen B.V. and Aegon Vastgoed Holding B.V. (as disappearing companies) the disappearing companies ceased to exist on June 30, 2017.

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

- Aegon Administratie B.V.
- Aegon Global Investment Fund B.V.
- Aegon Innovation Investments B.V.
- Van Nierop Assuradeuren N.V.

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

44.2. Investments in associates and joint ventures

Associates

The principal associates of Aegon Nederland are:

- N.V. Levensverzekeringmaatschappij 'De Hoop', The Hague (33.3%)
- Auxmoney GmbH, Germany (11.9%)
- Dynamic Credit Group B.V., Amsterdam (25.0%)
- OB Capital Cooperatief U.A., Schiphol (95.0%);

  Since 2017, Aegon Levensverzekering invests in OB Capital Cooperatief U.A. which is a company involved in investment in litigation finance and is incorporated in the Netherlands with principal activities based in the Netherlands, Switzerland, United Kingdom and Guernsey. Aegon Levensverzekering has a 95% interest in OB Capital Cooperatief U.A. on 31 December 2017. Even though Aegon Levensverzekering held more than half of the voting rights, Aegon Levensverzekering does not have control over the company because the existing contractual agreements with other shareholders do not provide Aegon Levensverzekering with rights to direct the daily activities of the company.

Joint ventures

- AMVEST Vastgoed B.V., Utrecht (50%), property management and real estate
- AMVEST Residential Core Fund I en II, (31.7%), 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 and voting power in the entities mentioned above.

44.3. 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 Nederland could be required to provide financial support in certain circumstances. Aegon Nederland has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

- SAECURE 13 NHG B.V.
- SAECURE 14 NHG B.V.
- SAECURE 15 B.V.
- Aegon Hypotheken financiering B.V.
- Kigoi 2013 B.V.
- Aegon conditional Pass Through Covered Bond Company B.V.

The following structured entity has been called at FORD in 2017 and is liquidated:

- SAECURE 12 B.V.

45. Related party transactions

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

Aegon Nederland administers the payroll for employees working for Aegon N.V. in the Netherlands. The total employee benefits recharged were EUR 70 million (2016: EUR 61 million). Aegon Nederland has paid EUR 5 million to its subsidiary Aegon Levensverzekering for the rental of the Aegon offices in The Hague (2016: EUR 5 million). In the consolidated income statement, the rental income of Aegon Levensverzekering is recognized in note 29 'Investment income' whilst the rent paid by Aegon Nederland is included in note 35 'Commissions and expenses'.

At the end of the year, Aegon Nederland had a current account receivable with Aegon N.V. of EUR 18 million (2016: payable of EUR 39 million), see note 14 'Other assets and receivables'. At the end of 2017, Aegon Nederland had group loans with group companies of EUR 220 million (2016: EUR 636 million), see note 23.2 'Group loans' and note 11 'Borrowings and group loans' for further information.

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 45 million (2016: EUR 52 million).

In 2017, Aegon N.V. recharged Aegon Nederland EUR 30 million in overheads and program expenses (2016: EUR 22 million). In turn, Aegon Nederland recharged these expenses to its group companies.

Aegon N.V. charged Aegon Nederland EUR 1 million (2016: EUR 1 million) for corporate insurances related to Director and Officers Liability and Fraud.

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 2017.

In respect to a longevity transaction with Blue Square Re, a 100% subsidiary of Aegon N.V., Aegon Levensverzekering (a subsidiary of Aegon Nederland) provided a loan to Blue Square Re of EUR 7 million at year-end 2017 (2016: debt to Blue Square Re of EUR 6 million).

In December 2013, Aegon Levensverzekering entered into a longevity reinsurance contract with Blue Square Re. The contract reinsures a specified portfolio of insurance contracts against possible future mortality improvements. The size of the underlying portfolio is EUR 941 million (2016: EUR 987 million). Blue Square Re will pay benefits as long as the participants live and receive fixed payments from Aegon Levensverzekering. EUR 22 million is recognized as deferred cost of reinsurance with regard to this reinsurance contract, which is amortized over the duration of the underlying insurance contracts (2016: EUR 23 million).

Employees of Aegon Nederland, including key management personnel, may make use of financing and insurance facilities at prices available to agents. The benefit to the employees is equivalent to the margin made by agents. The conditions for these products are the same for key management personnel and other staff.

Aegon Nederland participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Nederland uses to mitigate interest rate risk are concluded with Aegon Derivatives Aegon Nederland has received cash collateral on derivative positions via Aegon Derivatives, see also note 27 ‘Other liabilities and accruals.’

Until 2008 Aegon N.V. granted the employees of Aegon Nederland options as disclosed in note 35 ‘Commissions and expenses’. Since 2010, the Board of Directors and ‘Identified Staff’ have been granted long-term incentive plans. The remuneration of key management personnel, being the Board of Directors and the Supervisory Board, is disclosed in note 35 ‘Commissions and expenses’.

Aegon Nederland 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 Nederland is jointly and severally liable for all tax liabilities of the entire Aegon N.V. tax group. It also uses the tax expertise of Aegon N.V. On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG), which is therefore no longer part of the Aegon N.V. tax group.

During 2017 Aegon N.V., the ultimate parent company of Aegon Nederland N.V., determined to improve the capital position of, Aegon Nederland’s subsidiary Aegon Levensverzekering. This was done through two capital contributions in terms of share premium by Aegon Europe Holding B.V. of respectively EUR 200 million on July 7, 2017 and EUR 800 million on August 31, 2017.

Aegon Nederland did not pay dividend to Aegon N.V. in 2017 and in 2016.

46. Events after the reporting period

There were no post reporting date events that give further information on the situation pertaining on the reporting date.

The Hague, April 30, 2018

The Supervisory Board,

J.A.J. Vink	
D. Jansen Heijtmajer	
D. Terpstra	
G.T. Kepecs	
D. Jacobovits de Szeged	

The Hague, April 30, 2018

The Board of Directors,

M.J. Edixhoven	
R. Zomer	
I.M.A. de Graaf – de Swart	
W.A. Hekstra	
W. Horstmann	

Financial statements 2017 of Aegon Nederland N.V.

Report of the Board of Directors

See page 4 of the annual report for the Report of the Board of Directors.

Statement of financial position

(before profit appropriation)

	Note	31-12-2017	31-12-2016
Amounts in EUR million			
Assets			
Cash and cash equivalents	3	191	92
Investments	4	2.242	2.671
Shares in group companies	5	10.085	9.137
Borrowings and group loans	6	600	600
Other assets and receivables	7	676	533
Intangible assets		18	-
Total assets		**13.812**	**13.033**
Equity and liabilities			
Equity	8		
- Share capital		24	24
- Share premium		1.645	645
- Revaluation reserves		1.244	1.702
- Remeasurement of defined benefit plans		-736	-845
- Retained earnings		3.947	3.391
- Net income / (loss)		727	570
Shareholders' equity		**6.851**	**5.487**
Borrowings and group loans	9	3.600	850
Provisions	10	27	18
Defined benefit liabilities	11	2.693	3.188
Deferred tax liabilities	12	139	43
Other liabilities and accruals	13	502	3.446
Total liabilities		**6.961**	**7.545**
Total equity and liabilities		**13.812**	**13.033**

Income statement

(ending 31 December 2017)

Amounts in EUR million	2017	2016
Net income / (loss) group companies	530	614
Other income / (loss) after tax	197	-44
Net income / (loss)	**727**	**570**

Notes to the financial statements

1. General information

Aegon Nederland N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland N.V. ('Aegon Nederland') is wholly owned by Aegon Europe Holding B.V. in The Hague. Aegon N.V. in The Hague is the ultimate parent of the group.

Aegon Nederland (or 'the Company') and its subsidiaries ('Aegon' or 'the Group') are active in life insurance and pensions operations, savings and investment products, asset management operations, accident and health insurance, general insurance, banking operations, mortgages, pension administration and intermediary activities.

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 Dutch Civil Code. Based on article 2:362.8 of the Dutch 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 Nederland.

With regard to the income statement of Aegon Nederland, article 9:402, of Book 2 of the Dutch Civil Code has been applied, allowing a condensed format.

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

2.2. 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.

2.3. 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. Cash and cash equivalents

The cash items include an amount of EUR 153 million (2016: EUR 90 million) of cash held in the segregated accounts at Aegon Levensverzekering that is related to the pension plan of Aegon Nederland. The remaining cash items are not subject to restrictions.

4. Investments

	2017	2016
Available for sale debt securities	1.127	1.284
Loans (amortized cost)	709	743
Financial assets at fair value through profit or loss (FVTPL)	43	5
Investments in real estate	350	286
Other available for sale investments	13	353
Total investments	**2.242**	**2.671**
Current	118	445
Non-current	2.124	2.226
Total	**2.242**	**2.671**

Aegon Nederland has insured its pension obligations with Aegon Levensverzekering. The investments represent the investments related to the defined benefit plan of Aegon Nederland held in the separated accounts of Aegon Levensverzekering. The movement of other AFS investments compared to 2016 is the result of the sale of UMG.

2017	Debt securities	Mortgage loans	Private loans	Financial assets at FVTPL	Investments in real estate	Other financial assets	Total 2017
At January 1	1.284	593	150	5	286	353	2.671
Acquisitions	173	1	-	112	75	13	374
Disposal	-279	-35	-	-10	-44	-51	-419
Unrealized gains/losses through equity	-49	-	-	-	-	4	-45
Amortizations through income statement	-2	-	-	-	-	-	-2
Realized gains and losses through income statement	-	-	-	1	33	-	34
Other movements	-	-	-	-65	-	-306	-371
At December 31	**1.127**	**559**	**150**	**43**	**350**	**13**	**2.242**
Fair value	1.127	650	217	43	350	13	2.400

2016	Debt securities	Mortgage loans	Private loans	Financial assets at FVTPL	Investments in real estate	Other financial assets	Total 2016
At January 1	1.178	619	150	-	296	333	2.576
Acquisitions	146	6	-	5	8	185	350
Disposal	-143	-32	-	-	-43	-186	-404
Unrealized gains/losses through equity	105	-	-	-	-	21	126
Amortizations through income statement	-2	-	-	-	-	-	-2
Realized gains and losses through income statement	-	-	-	-	25	-	25
At December 31	**1.284**	**593**	**150**	**5**	**286**	**353**	**2.671**
Fair value	1.284	692	224	5	286	353	2.844

5. Shares in group companies

	2017	2016
At January 1	9.137	8.948
Capital contributions and acquisitions	1.068	3
Disposal	-55	-
Net income / (loss) for the financial year	530	614
Dividends received	-190	-40
Revaluations	-398	-388
Other	-7	-
At December 31	**10.085**	**9.137**

Refer to note 45 ‘Related party transactions’ of the consolidated financial statements for information on dividends received. For a list of names and locations of the most important shares in group companies, refer to note 44 ‘Group companies’ of the consolidated financial statements. The legally required list of participations as set forth in article 379 of Book 2 of the Dutch Civil Code has been registered with the Commercial Register of The Hague.

6. Long-term loans to group companies

	2017	2016
At January 1	600	600
At December 31	**600**	**600**

This item relates entirely to the subordinated loan with Aegon Levensverzekering to Aegon Nederland. This subordinated loan was has an indefinite duration; the term of notice is five year. The interest rate is 6%. The carrying amounts disclosed reasonably approximate fair value at year-end.

7. Other assets and receivables

	2017	2016
Equipment	45	41
Receivables	115	64
Accrued income	28	71
Receivables from group companies	173	-
Other	315	357
	676	**533**
Current	316	135
Non-current	360	398
Total	**676**	**533**

In the category 'Other' in the other assets and receivables an amount of EUR 315 million (2016: EUR 357 million) represents the value of the contract with Aegon Levensverzekering for the pension plan, that exceeds the value of the investments (as disclosed in note 4 ‘Investments’) and the cash deposits (as included in note 3 ‘Cash and cash equivalents’) attributed to the contract. Most of the other assets and receivables have a maturity of less than one year.

8. Equity

	2017	2016
Share capital	24	24
Share premium	1.645	645
Remeasurement of defined benefit plans	-736	-845
Revaluation reserves	1.244	1.702
Retained earnings	3.947	3.391
Net income / (loss)	727	570
At December 31	**6.851**	**5.487**

8.1. Share capital

	2017	2016
Authorized share capital	50	50
Not issued	26	26
	24	**24**

The authorized share capital is EUR 50 million, divided into 100,000 shares of EUR 500 nominal value each, of which 47,194 shares have been issued and fully paid up. There have been no changes since the previous financial year. Aegon Nederland paid no dividend to Aegon Europe Holding B.V. in 2017 or 2016.

8.2. Statement of changes in equity

2017	Share capital	Share premium	Remeasurement of defined benefit plans	Revaluation reserves	Other legal reserves	Retained earnings	Net income / (loss)	Shareholders' equity
At January 1	**24**	**645**	**-845**	**1.702**	**-**	**3.391**	**570**	**5.487**
Net income prior year retained	-	-	-	-	-	570	-570	-
Net income current year	-	-	-	-	-	-	727	727
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**570**	**157**	**727**
Changes revaluation subsidiaries	-	1.000	-	-398	-	-	-	**602**
Changes revaluation reserves	-	-	-	-74	-	-	-	**-74**
Remeasurement of defined benefit plans	-	-	109	-	-	-	-	**109**
Other	-	-	-	14	-	-14	-	**-**
Other comprehensive income / (loss)	**-**	**1.000**	**109**	**-458**	**-**	**-14**	**-**	**637**
At December 31	**24**	**1.645**	**-736**	**1.244**	**-**	**3.947**	**727**	**6.851**

The balance of the revaluation reserve, which includes revaluation reserves for real estate and investments that do not have a frequent market listing, consisted for EUR 54 thousand (2016: EUR 101 million) of items with positive revaluation.

The revaluation reserve and legal reserves, foreign currency translation reserve and other, cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

2016	Share capital	Share premium	Remeasurement of defined benefit plans	Revaluation reserves	Other legal reserves	Retained earnings	Net income / (loss)	Shareholders' equity
At January 1	**24**	**645**	**-599**	**2.026**	**-**	**2.735**	**665**	**5.496**
Net income prior year retained	-	-	-	-	-	665	-665	-
Net income current year	-	-	-	-	-	-	570	570
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**665**	**-95**	**570**
Changes revaluation subsidiaries	-	-	-	-397	-	-	-	**-397**
Changes revaluation reserves	-	-	-	64	-	-	-	**64**
Remeasurement of defined benefit plans	-	-	-246	-	-	-	-	**-246**
Other	-	-	-	9	-	-9	-	**-**
Other comprehensive income / (loss)	**-**	**-**	**-246**	**-324**	**-**	**-9**	**-**	**-579**
At December 31	**24**	**645**	**-845**	**1.702**	**-**	**3.391**	**570**	**5.487**

9. Borrowings from group companies

	2017	2016
Loan Optas Pensioenen N.V.	850	850
Loan Aegon Global Investment Fund B.V.	2.500	-
Loan Aegon Spaarkas N.V.	100	-
Loan Aegon Levensverzekering N.V.	150	-
At December 31	**3.600**	**850**

Current	15	
non-current	3.585	850
Total	**3.600**	**850**

Optas Pensioenen gave Aegon Nederland a loan of EUR 850 million in 2007 with an interest rate of 6% and an indefinite maturity. There have been no repayments in 2017 and 2016.

As of January 2017 the core part of the intercompany account with Aegon Global Investment Fund B.V. has been converted to a fixed term loan of EUR 2.5 billion for a 3 years period with floating interest.

As of January 2017 the core part of the intercompany account with Aegon Spaarkas N.V. has been converted to a fixed term loan of EUR 100 million for a 10 years period with floating interest.

As of June 2017 the core part of the intercompany account with Aegon Levensverzekering N.V. has been converted to a loan of EUR 150 million, consisting of ten loan parts of EUR 15 million with a maturity vary from 1 year to 10 years at fixed interest per loan part.

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

10. Provisions

2017	Restructuring provision	Other provisions	Total 2017
At January 1	1	17	18
Additions charged to earnings	14	1	15
Used during the year	-6	-	-6
At December 31	**9**	**18**	**27**

2016	Restructuring provision	Other provisions	Total 2016
At January 1	10	16	26
Additions charged to earnings	-	1	1
Unused amounts reversed through the income statement	-3	-	-3
Used during the year	-6	-	-6
At December 31	**1**	**17**	**18**

	2017	2016
Current	5	1
Non-current	22	17
At December 31	**27**	**18**

Refer to note 24 ‘Provisions’ of the consolidated financial statements for information on the Provisions.

11. Defined benefit liabilities

Refer to note 25 ‘Defined benefit liabilities’ of the consolidated financial statements for information on the defined benefit liabilities.

12. Deferred tax

2017	Real Estate	Financial assets	Defined benefit plan	Other	Total 2017
At January 1	10	84	-58	7	43
Charged to income statement	6	1	69	-3	73
Charged to equity	-	-13	36	-	23
At December 31	**16**	**72**	**47**	**4**	**139**

2016	Real Estate	Financial assets	Defined benefit plan	Other	Total 2016
At January 1	1	58	2	30	91
Charged to income statement	9	1	22	-23	9
Charged to equity	-	25	-82	-	-57
At December 31	**10**	**84**	**-58**	**7**	**43**

13. Other liabilities and accruals

	2017	2016
Current account with other group companies	425	3.174
Income tax payable	-	140
Other liabilities	77	132
	502	**3.446**
Current	496	3.446
Non-current	6	-
Total	**502**	**3.446**

The current account with group companies decreased following the conversion of the core part of the intercompany accounts with Aegon Global Investment Fund B.V., Aegon Spaarkas N.V. and Aegon Levensverzekering N.V. (see note 9).

Most other liabilities have a maturity of less than one year.

14. Remuneration Directors and Supervisory Board

Refer to note 35 ‘Commissions and expenses’ of the consolidated financial statements for information on the remuneration of the Directors and Supervisory Board.

15. Remuneration Independent Auditor

Refer to note 35 ‘Commissions and expenses’ of the consolidated financial statements for information on the remuneration of the independent Auditor.

16. Employees

Refer to note 35 'Commissions and expenses' of the consolidated financial statements for information on the number of employees.

17. 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 Nederland.

Aegon Nederland has a current account facility with the subsidiaries of the Aegon Nederland group. At year-end, the amount of EUR 285 million (2016: EUR 3 billion) was drawn upon this facility. The interest paid on this facility amounts to EUR 2 million (2016: EUR 106 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 group loan at December 31, 2017 was EUR nil (2016: EUR 36 million).

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% and a term of notice of one month. The accrued interest on the Group loan at December 31, 2017 was nil (2016: nil).

Aegon Nederland provides its group companies with staff and facilities at cost. All intra-group transactions are accounted for through the current account with group companies (in the separate financial statements). The total recharge was EUR 295 million (2016: EUR 311 million).

In 2017, Aegon N.V. recharged Aegon Nederland EUR 30 million in overheads and program expenses (2016: EUR 22 million). In turn, Aegon Nederland recharged these expenses to its group companies.

As of January 2017 the core part of the intercompany account with Aegon Global Investment Fund B.V. has been converted to a fixed term loan of EUR 2.5 billion for a 3 years period with floating interest.

As of January 2017 the core part of the intercompany account with Aegon Spaarkas N.V. has been converted to a fixed term loan of EUR 100 million for a 10 years period with floating interest.

As of June 2017 the core part of the intercompany account with Aegon Levensverzekering N.V. has been converted to a loan of EUR 150 million, consisting of ten loan parts of EUR 15 million with a maturity vary from 1 year to 10 years at fixed interest per loan part.

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 56 million (2016: EUR 62 million).

On October 31, 2017 Aegon Nederland sold its shares in Unirobe Meeùs Groep (UMG) to Aegon Groep Nederland. UMG has insured a large part of its pension obligations for UMG personnel with Aegon Levensverzekering N.V. As part of the commercial negotiations regarding the sale Aegon Nederland committed itself to pay certain future pension premiums regarding the UMG contract at Aegon Levensverzekering N.V. for the period 2017-2020. Aegon Levensverzekering N.V. received the future pension premiums upfront from Aegon Nederland instead of over time from UMG for an amount of EUR 65 million.

During 2017 UMG up streamed EUR 40 million dividend to Aegon Nederland, which was settled via the intercompany account between Aegon Nederland and UMG.

During 2017 Aegon N.V., the ultimate parent company of Aegon Nederland N.V., determined to improve the capital position of, Aegon Nederland's subsidiary Aegon Levensverzekering. This was done through two capital contributions in terms of share premium by Aegon Europe Holding B.V. of respectively EUR 200 million on July 7, 2017 and EUR 800 million on August 31, 2017.

This is effectuated by means of an increase of its equity by Aegon Nederland making a cash contribution on shares already issued by Aegon Levensverzekering to Aegon Nederland.

During 2017 Aegon Nederland provided Aegon Levensverzekering with a capital contribution of EUR 1,050 million. This improved the SII ratio of Aegon Levensverzekering with and an estimated 40%-points.

Refer to note 45 'Related party transactions' of the consolidated financial statements for more information on the related party transactions.

18. Commitments and contingencies

Refer to note 41 'commitment and contingencies' of the consolidated financial statements for more information on commitment and contingencies.

19. Events after the reporting period

There were no post reporting date events that give further information on the situation pertaining on the reporting date.

20. 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 727 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The Hague, April 30, 2018

The Supervisory Board,

J.A.J. Vink	
D. Jansen Heijtmajer	
D. Terpstra	
G.T. Kepecs	
D. Jacobovits de Szeged	

The Hague, April 30, 2018

The Board of Directors,

M.J. Edixhoven	
R. Zomer	
I.M.A. de Graaf – de Swart	
W.A. Hekstra	
W. Horstmann	

Other information

Statutory provisions regarding profit appropriation

Appropriation of profit will be determined in accordance with article 28 of the Articles of Association of Aegon Nederland N.V. The relevant provisions read as follows:

1. The profit made in a financial year shall be at the disposal of the Annual General Meeting.
2. Distribution of profit shall take place after adoption of the financial statements which show this to be permissible.
3. The Annual General Meeting may resolve to make interim distributions and/or distributions charged to a reserve of the company.
4. Distributions on shares may only take place up to the amount of the distributable equity.
5. A shareholder' claim to a distribution on shares shall lapse after a period of five years.

Independent auditor’s report

Independent auditor's report

To: The Annual General Meeting of Shareholders and Supervisory Board of Aegon Nederland N.V.

Report on the financial statements 2017

Our opinion

In our opinion:

- Aegon Nederland N.V.'s consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries (together: the Group) as at December 31, 2017, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

- Aegon Nederland N.V.'s stand-alone financial statements give a true and fair view of the financial position of the Company at December 31, 2017 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 for 2017 of Aegon Nederland N.V., The Hague. The financial statements include the consolidated financial statements of Aegon Nederland N.V. and its subsidiaries and the stand-alone financial statements.

The consolidated financial statements comprise of:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The stand-alone financial statements comprise of:

- the statement of financial position as at December 31, 2017;
- the income statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the stand-alone 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 section 'Our responsibilities for the audit of the financial statements of our report.

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

Independence

We are independent of Aegon Nederland N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence), and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Aegon Nederland N.V. is, through its subsidiaries, a provider of life insurance, pension, savings mortgages, non-life insurance, banking and asset management, and intermediary activities.

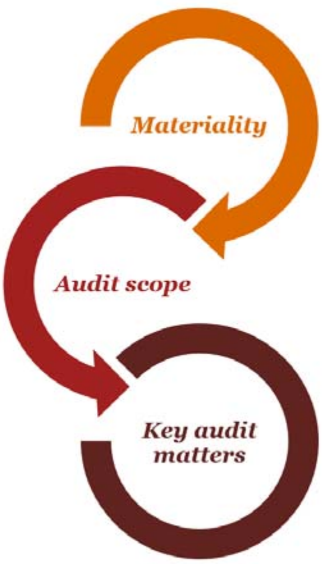
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Notes 3 and 40 of the financial statements the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement, the 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, the fair value of 'hard to value' financial instruments, and uncertainties in policyholder claims and litigation we considered these to be key audit matters as set out in the section 'Key audit matters' of this report.

During 2017, the Company sold its 100% holding in Unirobe Meus Group. This warranted our specific attention and therefore we identified the accounting for this disposal as a key audit matter.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

Furthermore, to the extent relevant for our audit, we addressed information technology general controls ('ITGCs'), that are the policies and procedures used by the Group 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 competences which are needed for the audit of a diverse financial institution. Accordingly, our audit team included industry expertise in life and non-life insurance, banking and asset management, as well as specialists including actuaries, IT auditors, treasury, tax, remuneration and valuation specialists. The outline of our audit approach was as follows:



Materiality

- Overall materiality: €55 million.

Audit scope

- We conducted audit work in all significant business operations within Aegon Nederland N.V.
- We had all regulated insurance and banking entities in the scope of our audit, including the investment and real estate operations managed by related parties. Audit coverage: 95% of consolidated revenue, 100% of consolidated total assets and 94% of consolidated profit before tax.

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 calculation
- Fair value of 'hard to value' financial instruments
- Uncertainties in policyholder claims and litigation
- The accounting for the sale of Unirobe Meeùs Groep (UMG)

Materiality

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

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. 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, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€55 million (2016: €55 million).
Basis for determining	At the start of the planning of our audit we performed a stakeholders' analysis that

materiality	identified suitable benchmarks and thresholds for determining overall materiality for the statutory financial statements. We utilised quantitative and qualitative measures that included the perspective of the common information needs of the parent company, policyholders, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. Our evaluation of overall materiality has been based on applying 2% of equity. This resulted in an overall materiality of €137 million (2016: €68 million). The increase in overall materiality can be attributed to the increased capitalization of the Company and the fact that we no longer exclude revaluation reserves in the materiality calculation in line with industry practice. The allocated materiality to the Company from its parent company that was used for group reporting purposes amounted to €55 million (2016 €55 million). We applied the lower of the two amounts.
Rationale for benchmark applied	Capital, i.e. solvency is a key measurement for regulators, policyholders and other creditors. Accordingly, we used a percentage of the Company's equity as a quantitative benchmark. The allocated materiality to the Company agreed with its parent company Aegon N.V. and reflects its shareholders perspective on the financial performance of the Company's operations, and is based on profit before tax.
Component materiality	To each component in our audit scope, we allocate consistently, based on our judgment, materiality that is less than our overall group materiality. The range of materiality allocated across components was between €10 to €54 million.

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 €3.4 million (2016: €3.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Aegon Nederland N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Aegon Nederland N.V. The Group is structured predominantly along customer segments led by separate management teams that report to the Board of Directors of Aegon Nederland N.V. The following entities are organized within the retail segment: Aegon Schadeverzekering, Aegon Levensverzekeringen (Individual life), Aegon Spaarkas, Aegon Advies, Aegon Bemiddeling and Aegon Hypotheken. The entities Optas Pensioenen, Aegon Schadeverzekering (Income) and Aegon Levensverzerkingen (Pensions) are organized within the wholesale segment. KNAB and Aegon Bank form a separate customer segment.

The Group's accounting process is structured around a centralized finance function that supports the individual insurance and banking operations within the Aegon Nederland Group, called reporting units which we consider components in planning and executing our audit. The finance function maintains all actuarial and tax functions, and also maintains their own accounting records and controls and reports to senior management and the parent company through an integrated consolidation and reporting system. In establishing the overall approach to the Group audit, we determined the type of work that is needed to be performed by our audit team at each of the reporting units.

In our view, due to their significance and/or risk characteristics, the financial information of all regulated banking and insurance operations within the Aegon Nederland group as disclosed in note 44 of the consolidated financial statements, were fully in scope of our Group audit. For all of these operations the Group engagement team performed that work except for the investment and real estate portfolios which are managed by related parties. For these positions, which includes own account investments as well as investments on account of policyholders, we made use of the audit work performed by the respective component auditors.

Where the work was performed by component auditors or other teams, we determined the level of involvement we need to have in the audit work at those components. This determination was made in order for us to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. In addition to issuing written instructions, we developed an oversight strategy for each component based on its significance and/or risk characteristics to the Group. These strategies included procedures such as regular meetings and discussions with component auditors to challenge and review of significant audit matters and judgements within the component team audit files, reviewing extensive reporting to the Group team, and participating in closing meetings.

Specific audit procedures on certain balances and transactions were also performed in relation to non-regulated operations, most specifically the intermediary business activities of UMG and Nedasco to ensure we obtained appropriate coverage across all account balances.

This results in the following audit coverage:

Revenue	95%
Total assets	100%
Profit before tax	94%

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

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. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

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

Due to the nature of the insurance industry and economic environment the following key audit matters are consistent with the 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 calculation;
- Fair value of 'hard to value' financial instruments;
- Uncertainties in policyholder claims and litigation.

In 2017 we have added a new key audit matter ''The accounting for the sale of Unirobe Meeùs Groep (UMG)'' as this was an out of the ordinary course of business transaction that took place during the year and had a significant impact on the result for the year.

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*

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 Group has significant insurance contract liabilities stated at €34,4 billion and insurance contracts for account of policyholders stated at €25,6 billion at 31 December 2017 representing 69% of the Company's total liabilities, which mostly relates to the Life and Pension products. 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, morbidity and customer behaviour are key inputs used to estimate these long-term liabilities. Significant judgement is applied in setting these assumptions. • During 2017, the Company continued its multi-year review of their actuarial models with continued focus on those considered medium and high risk. These model updates in combination with the Group'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'. • Sustained low interest levels led to a deficit resulting from management's liability adequacy testing of €-1.593 million as of December 31, 2017.	We used our own actuarial specialists to assist us in performing our audit procedures. In particular, our audit focused on the actuarial models considered more complex and/or requiring significant judgement in the setting of assumptions such as the relevant guarantees provided to policyholders. We evaluated the design and tested the operating effectiveness of internal controls over the actuarial process including management's determination and approval process for setting of economic and actuarial assumptions. We assessed the Company's validation of certain models considered medium and higher risk by the Company as a result of complexity and/or magnitude. 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. We also assessed and tested the internal controls over the Company's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Group. Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences. Furthermore, we performed audit procedures over the models and model updates to determine the models and systems were calculating the insurance contracts liabilities accurately and completely. We tested the validity of management's liability adequacy testing which is a key test performed to check that the insurance liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Group's and industry experience and specific product features. In addition, we validated the calculations performed. We assessed the appropriate application of shadow loss recognition in line with the company's accounting policies.

Key audit matter	How our audit addressed the matter
As the Group applies the principle of shadow loss recognition, this amount has been charged to Other Comprehensive Income.	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 40 'Fair value of assets and liabilities".* The Group's investment portfolio, including net derivative assets, totalling €77 billion represents 83% of the Company's total assets. Quoted prices from liquid market sources can be obtained for a large portion of the portfolio. The areas that involved significant audit effort and judgement were the valuation of illiquid instruments. These instruments are valued based on models and assumptions that are not observable by third parties which are generally considered level III as included in Note 40 'Fair value of Assets and Liabilities'. As of year-end these Level III investments presented at fair value amounted to €2.257 million. Those investments have a higher potential risk to be affected by error or management bias. Therefore these areas are considered a key matter for our audit. Our focus 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 industries 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 assessed the design and tested the operating effectiveness of internal controls over the investments' valuation and impairment 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 performed substantive audit procedures to supplement procedures over internal control testing. We assessed pricing model methodologies against industry practice and valuation guidelines. We compared assumptions used against appropriate benchmarks and pricing sources, investigated significant differences and performed our own independent valuations, using valuation statements, independent broker quotes and underlying financial data, where applicable. We evaluated the cash flow and other relevant testing performed by the Group in order to identify any impairment in relation to investments. We used our valuation specialists to assist us in performing our audit procedures. We also assessed whether the Group's disclosures in the consolidated financial statements in relation to the valuation of investments are in accordance with EU-IFRS.

Key audit matter	*How our audit addressed the matter*
Uncertainties in policyholder claims and litigation *Refer to Note 41 'Commitments and contingencies'* The insurance industry continues to face consumer activism and regulatory scrutiny over product design and selling practices. The Company has encountered claims and litigations 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. 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 tested that the Group has properly reflected the claims and litigations in either the provisions or contingent liabilities by assessment these against IAS 37. We also assessed the completeness and adequacy of the related disclosures to determine they were in accordance with EU-IFRS.

Key audit matter	How our audit addressed the matter
Sale of Unirobe Meeùs Groep (UMG) *Refer to Note 25 'Defined Benefit liabilities' and Note 32 'Other income'* Aegon Nederland sold its shares in UMG, an independent financial advisory group, to Aon Groep Nederland for € 295 million. The transaction is consistent with Aegon Nederland's strategic objective to optimize its portfolio across its businesses. The divestment lead to a book gain of € 207 million pre-tax (€ 198 million post tax), which is reported as "other income". As a consequence of the sale and as referred to in Note 25, UMG's pension obligations and related assets were derecognized as part of the Company's IAS 19 provision and transferred to insurance liabilities as they are insured with Aegon Levensverzekering N.V.. The accounting of the sale of Unirobe Meeùs Groep (UMG)'' was an out of the ordinary course of business transaction that took place during the year and had a significant impact on the result for the year and therefore we considered it a key matter for our audit.	We assessed the accuracy and appropriateness of the result on disposal recognized by Aegon Netherlands. For this purpose we read the signed share purchase agreement and confirmed the proceeds and the conditions of the sale. We reconciled the proceeds received to the contractual terms. We assessed the IFRS book value of UMG by validating the movements during the year until the date of de-recognition. We reconciled the movements in the Company's IAS 19 pension provision, respectively insurance liabilities related to the transfer of UMG pension obligations to underlying actuarial documentation. We also considered the adequacy of the disclosures in the consolidated financial statements relating to the sale of UMG to determine whether they were in accordance with IFRS-EU.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the Board of Directors;
- the Report of the Supervisory Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the report of the Board of Directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were initially appointed as auditors of Aegon Nederland N.V. by the Board of Directors for the years 2014 to 2016 following the passing of a resolution by the shareholders of Aegon N.V. at the annual meeting held on May 15, 2013. We were reappointed as auditors of Aegon Nederland N.V. by the Board of Directors for the years 2017 to 2018 following the passing of a resolution by the shareholders of Aegon N.V. at the annual meeting held on May 19, 2017 representing a total period of uninterrupted engagement appointment of 4 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

In addition to the audit, we have provided the Company and its Dutch subsidiaries services required by laws and regulations as well as other audit services, being attestation services (including agreed upon procedures for third parties), assurance engagements other than audits and reviews of published quarterly historical information, assurance reports on controls at a service organization for customers of the Company, comfort letter related procedures and audits of regulatory information for the Company's regulator the Dutch Central Bank (DNB).

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Directors and the supervisory board for the financial statements

The Board of Directors 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
- such internal control as the Board of Directors 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 Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going-concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors 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 in a manner that allows us 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.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

Amsterdam, 30 April 2018
PricewaterhouseCoopers Accountants N.V.

Originally signed by E.L. Rondhout RA

Appendix to our auditor's report on the financial statements 2017 of Aegon Nederland 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 other things of the following:

- 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 Board of Directors.
- Concluding on the appropriateness of the Board of Directors' 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 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. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide 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 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.