

The following table details the Group's liquidity analysis for its 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.

Maturity analysis (derivatives ¹) (Contractual cash flows) 2013	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Gross settled						
Cash inflows	-	12,653	18,622	27,077	55,301	113,652
Cash outflows	-	(12,505)	(18,014)	(26,708)	(53,826)	(111,054)
Net settled						
Cash inflows	-	384	1,563	3,162	5,713	10,822
Cash outflows	-	(323)	(1,164)	(2,970)	(5,323)	(9,781)

¹ Financial derivatives include all derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

Maturity analysis (derivatives ¹) (Contractual cash flows) 2012	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Gross settled						
Cash inflows	-	11,346	15,435	19,038	38,762	84,581
Cash outflows	-	(11,414)	(15,738)	(19,264)	(37,479)	(83,895)
Net settled						
Cash inflows	-	1,049	6,528	560	2,525	10,662
Cash outflows	-	(930)	(4,951)	(294)	(2,033)	(8,208)

¹ Financial derivatives include all derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

Underwriting risk

Aegon'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 may be required to increase liabilities, which could reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the statement of financial position and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability. This could have a materially adverse effect on Aegon's business, results of operations and financial condition.

Sources of underwriting risk include policy lapses and policy claims (such as mortality and morbidity). In general, Aegon is at risk if policy lapses increase as sometimes Aegon is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, Aegon 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 is also at risk if expenses are higher than assumed by management.

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