Aegon Schadeverzekering N.V.

Solvency and Financial Condition Report 2016

Contents

Executive summary

Scope of this report

This Solvency and Financial Condition Report ("SFCR") of Aegon Schadeverzekering N.V. ("Aegon Schade") is the report on solvency and financial condition for the year ended 31 December 2016 as disclosed to the public in compliance with the requirements stemming from the Solvency II legislative framework that came into force on 1 January 2016. The SFCR is published on 19 May 2017 in accordance with and in compliance with the regulatory deadline.

The Solvency II Pillar 3 regulatory reporting and disclosure requirements came into force on 1 January 2016. Insurance entities must produce two key reports:

- the ***Solvency and Financial Condition Report ("SFCR")*** – Firms are required to disclose this report publicly and to report it to the De Nederlandsche Bank ("DNB") on an annual basis. The SFCR includes both qualitative and quantitative information; and
- the ***Regulatory Supervisory Report ("RSR")*** – This is a report to the supervisor and is not disclosed publicly. Firms submit this report to the DNB in full at least once every three years and in summary every year. The RSR includes both qualitative and quantitative information.

The SFCR informs Aegon Schade's stakeholders about Aegon Schade's:

- A. Business and Performance This section gives an overview of the business and underwriting, investment and other activity performance over the year;
- B. System of Governance This section gives general information on the system of governance, covering fit and proper persons requirements, Aegon Schade's risk management system including the Own Risk and Solvency Assessment ("ORSA"). It also covers functions such as internal audit, actuarial and outsourcing arrangements;
- C. Risk Profile This section covers all risk categories including underwriting, market, credit, liquidity and operational risk;
- D. Valuation for Solvency Purposes This section explains the methodology differences between International Financial Reporting Standards ("IFRS") and Solvency II, and provides a reconciliation between the two reporting frameworks, identifying classification and valuation differences; and
- E. Capital Management This section provides an analysis and explanation of our own funds, solvency capital requirement ("SCR") and minimum capital requirement ("MCR"), and explains the differences between the standard formula and our internal model.
- Quantitative Reporting Templates ("QRT's") Part of the SFCR are quantitative reporting templates relating to the Company. These are separately disclosed on the following website being *https://www.aegon.nl/overaegon/jaarverslagen.*

The SFCR report contains both quantitative and qualitative information. The main focus of this report will be on the Solvency Balance Sheet, its relation to IFRS and on the Solvency Capital Requirement ("SCR"). As this is the first year of full implementation of Solvency II, there are no comparative numbers available, on a consistent basis, relating to the Solvency Balance Sheet and the SCR. For information on another basis than Solvency II, comparative information is provided if deemed necessary to further understand the information provided.

Company profile

Aegon Schade at a glance

Aegon N.V. is the ultimate parent company of Aegon Schade. Within the Netherlands, Aegon Schade is the non-life insurance carrier for the Aegon Group of companies.

Aegon Global facts and figures:

- Global savings and investment provider serving 26.5 million customers in over 20 countries across Europe, Asia and the Americas
- Over 29,000 employees, with over 4,500 based in the Netherlands
- Manages over € 743 billion in assets on behalf of savers and investors worldwide
- Global brands are Aegon and Transamerica

Aegon Schade's consolidated income before tax for 2016 amounts € 39 million (2015: -/- € 25 million). The gross written premium amounts to € 350 million for the year ended 2016. Shareholders' equity at 31 December 2016 amounts to € 285 million compared to € 249 million at year-end 2015. The Solvency II ratio is calculated at 159% as at 31 December 2016, which is determined based on own funds of € 395 million and a SCR of € 249 million and the MCR amounts € 63 million.

2016 numbers (in € million)

39

Income before tax

350

The gross written premium

285

Shareholders' equity

159%

Solvency II ratio

395 Own funds

249 Solvency Capital Requirement ("SCR")

63

Minimum capital requirement ("MCR")

The current Solvency II position, being larger than 100%, evidences Aegon Schade's ability to meet policyholder obligations when they fall due, even under stressed conditions. The Solvency II SCR target range for Aegon Schade is set at 130% - 150% by the company's Executive Board. The current capitalization of Aegon Schade is above its target range.

Mission and strategy

Aegon Nederland N.V. ("Aegon Nederland"), the holding company of the Dutch Aegon organization, which includes Aegon Schade, has customers at the core of its strategy. On 1 October 2016, Aegon Nederland introduced the Future Fit Strategy, the purpose of which is to become the "customer based company of the future". The refocused strategy centers around Aegon Nederland's mission to "enable people to make self-conscious decisions on 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 is set to start the implementation of the Future Fit Strategy. The Future Fit Strategy initiated changes to our organization and governance structure and transforming the organization from being product-driven towards being customer-driven. Through this new organizational structure Aegon Nederland is now more aligned to its business strategy and consequently, a more efficient and effective execution of our strategy can be expected.

Challenges

Consumer Property & Casualty

Technological developments lead to new customer behavior with an impact on the property and casualty ("P&C") business. As such, it is necessary that we change our P&C business to ensure that we can execute our refined strategy according to plan. To be successful and create happy and loyal customers and a growing and healthy portfolio we need to further develop into a digital, data driven client orientated organization.

Key elements in the non-life Business–To-Consumer strategy are:

a. Extensive digitization in all processes;
b. Development of data driven and fact based steering;
c. Further develop the multichannel strategy (via Intermediaries and direct);
d. Growing our portfolio; and
e. Being in control.

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

Income (Accident & Health) market

The key elements of the strategy for Income are a) to be the best income insurer in the area of assisting reintegration and b) that early prevention in the disability process is beneficial. All products are offered to all target groups.

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

To achieve this we:

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

Employees

Aegon Schade itself does not have employees, but is serviced by employees of Aegon Nederland. Related expenses are charged to Aegon Schade.

Standard formula

Aegon Schade uses the standard formula to calculate the SCR under Solvency II. With respect to the own funds of Aegon Schade, the liability calculation includes the use of the Volatility Adjustment ("VA"), but does not include the use of any transitional measures. Solvency II capital ratios are still subject to final interpretations of Solvency II regulations. This includes the assumptions underlying the factor used by Aegon Schade (75%) to calculate the loss absorbing capacity of deferred taxes in the Netherlands. New guidance from the DNB, issued on 3 February 2017, is under review.

The capitalization of Aegon Schade is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria.

For insurance companies in the European Union, Solvency II regulations contain a minimum regulatory capital requirement of 100% of the SCR. Pursuant to self-imposed criteria, as laid down in its capital management policy, Aegon Schade manages its capital at levels well above the SCR.

Solvency II also defines a lower capital requirement, the MCR. An irreparable breach of the MCR would lead to the withdrawal of the insurance license.

Other information regarding the scope of this report

This report is prepared in accordance with the requirements of the Solvency II Directive (Directive 2009/138/EC) and Commission Delegated Regulation (EU) 2015/35 (in this SFCR report: "Delegated Regulation") —in particular article 256 of the Solvency II Directive, articles 359 – 371 and article 290-298 of the Delegated Regulation— and relevant EIOPA Guidelines (in particular 'Guidelines on reporting and public disclosure' - EIOPA-BoS-15/109) as issued by EIOPA. Where in this SFCR reference is made to the "Solvency II legislative framework", this refers particularly to the aforementioned Solvency II Directive, the Delegated Regulation and the EIOPA Guidelines.

The Netherlands has applied the Member State option to waive the disclosure requirements for the capital add on or the impact of specific parameters for individual insurance or reinsurance undertakings within the meaning of article 51(2) Solvency II.

This SFCR does not contain any information on developments in solvency or financial condition of Aegon Schade beyond the closing date of 31 December 2016. No forward looking statements on solvency or financial condition are contained in this SFCR, unless expressly commented herein.

In case of differences between the financial or other information as contained in this SFCR and the annual accounts for 2016 of Aegon Schade, the financial or other information as disclosed in such annual accounts for 2016 will prevail.

All amounts are presented in millions of Euros (€) unless otherwise stated.

Using the standard formula of the Solvency II legislative framework, Aegon Schade has not applied simplified calculations or undertaking specific parameters for any of the risk modules and sub-risk modules.

The SFCR has been prepared and disclosed under responsibility of the Executive Board.

A. Business and performance

A.1. Business

A.1.1. Name, details and legal form of the undertaking

Aegon Schade's share capital is 100% held by Aegon Nederland. Aegon Nederland's share capital is 100% held by Aegon Europe Holding B.V.. Aegon Europe Holding B.V.'s share capital is 100% held by Aegon N.V., the ultimate parent company of the Aegon Group. Aegon Nederland and Aegon N.V. are public limited liability companies, Aegon Europe Holding B.V. is a private limited liability company. Aegon N.V., Aegon Nederland and Aegon Europe Holding B.V. have their statutory seats in The Hague, the Netherlands. All of these companies are mixed financial holding companies, as defined in article 212 (1) (h) of the Solvency II Directive. Solvency II group supervision, as well as supplementary supervision in accordance with EU Directive 2002/87/EC is exercised at the level of Aegon N.V..

Aegon N.V.'s largest shareholder is Vereniging Aegon, a Dutch association located in The Hague, the Netherlands, with a special purpose to protect the broader interests of Aegon N.V. and its stakeholders. On 31 December 2016, Vereniging Aegon, Aegon's largest shareholder, held a total of 279,236,609 common shares and 567,697,200 common shares B. Under the terms of the 1983 Merger Agreement as amended in May 2013, Vereniging Aegon has the option to acquire additional common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake to 32.6% of the voting rights, irrespective of the circumstances that caused the total shareholding to be or become lower than 32.6%. In the absence of a 'Special Cause' Vereniging Aegon may cast one vote for every common share it holds and one vote only for every 40 common shares B it holds. As 'Special Cause' qualifies the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a Special Cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of one vote per common share B for a limited period of six months. Accordingly, at 31 December 2016, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.4%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase, currently to 32.6%, for up to six months.

Aegon Schade does not have any subsidiaries, or investments in associates, joint ventures or investments in unconsolidated structured entities.

A.1.2. Name of the Supervisory Authority responsible for the financial supervision of the undertaking and group

For both Aegon Schade and Aegon N.V., the supervisory authority responsible for prudential supervision is De Nederlandsche Bank:

De Nederlandsche Bank N.V. ("DNB")
Westeinde 1
1017 ZN Amsterdam
Postbus 98
1000 AB Amsterdam
Telephone: +31(0)20-5249111

A.1.3. Name and contact details of the external auditor of the undertaking

The external auditor of Aegon Schade is:

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam
Postbus 90357
1006 BJ Amsterdam
The Netherlands
Telephone: +31(0)88-7920020

The external auditor's mandate does not cover an audit on the information disclosed in this SFCR.

A.1.4. The undertaking's material lines of business and material geographical areas where it carries out business

Aegon Schade is active in the Non-Life and Income insurance market and offers Accident & Health and Property & Casualty cover in the Netherlands. Aegon Schade operates from The Hague.

A.1.5. Any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking

In 2016, Aegon Schade sold its commercial P&C portfolio to Allianz Benelux as per 1 July 2016. This commercial P&C portfolio comprised all commercial P&C lines, with a total premium volume of about € 90 million, and two distribution channels in run-off (authorized agents and co-insurance). This sale followed the strategic decision of management to place greater focus on the Aegon Schade's key competencies as Income and Living. A "risk sharing mechanism" was agreed with Allianz Benelux. Aegon Schade will continue to provide accounting, collections and IT services to Allianz Benelux. The accounting service is on a temporary basis.

A.2. Underwriting performance

In this paragraph we highlight the key attributors to the underwriting performance. The figures below are based on the IFRS annual report 2016 of Aegon Schade.

In this paragraph the information is provided from the perspective of the continuing operations. This means that the discontinued operations related to the divestment mentioned before is excluded unless specified otherwise.

Underwriting Performance Aegon Schade

Amounts in € million	2016	2015
1 Premium income	350	353
2 Commissions and expenses	-/- 116	-/- 116
3 Policyholder claims and benefits	-/- 245	-/- 257
4 Income before tax	20	-/- 4

1 Premium income
Premium income for 2016 amounts to € 350 million, which is mainly in related to the "accidents and illness" portfolio. In general the insurance portfolios are relatively stable.

2 Commissions and expenses
The commissions and expenses remained relatively stable during 2016 compared to 2015.

3 Policyholder claims and benefits
The policyholders' claims and benefits amounts to € 245 million (2015: € 257 million). The policyholders claims and benefits can be divided in Claims and benefits paid to policyholders for the amount of € 370 (2015: € 475 million) and a decrease in the Change in valuation of liabilities for insurance and investment contracts for the amount of € 59 million (2015: increase of € 26 million). The effect of discontinued operations is -/- € 66 million in 2016 (2015: -/- € 244 million).

4 Income before tax
Income from continuing operations before tax in 2016 was € 20 million, compared to a loss after tax of € 4 million in 2015.
The income from discontinued operations before tax was € 19 million (2015: -/- € 21 million).

Including discontinued operations, income before tax amounts to € 39 million, compared to a loss before tax of € 25 million in 2015.

A.3. Investment performance

In this paragraph we highlight the key attributors to the underwriting performance. The figures below are based on the annual report of Aegon Schade.

In this paragraph the information is provided from the perspective of the continuing operations. This means that the discontinued operations related to the divestment mentioned before is excluded unless specified otherwise.

A.3.1. Breakdown of investments

Aegon Schade holds investments for the own general account. The composition of the assets in the balance sheet is presented in the following table:

Breakdown financial assets

Amounts in € million	2016	2015
Debt securities	543	630
Loans	518	563
Other investments	2	2
Shares	258	358
Total	**1,321**	**1,554**

As a result of the sale to Allianz in 2016 of Aegon Schade's P&C portfolio in 2016, Aegon Schade's insurance liabilities after reinsurance decreased about € 340 million. Aegon Schade transferred € 317 million to Allianz Benelux, for which a corresponding amount of investments was sold.

A.3.2. Investment performance

The investment performance consists of attributors shown in (a) IFRS income statements and of attributors (b) directly through equity in the IFRS balance sheet.

a. Investment performance through Profit and loss

Investment performance through Profit and loss

Amounts in € million	2016	2015
1 Investment income	18	19
2 Results from financial transactions	13	1

1 Investment income

The investment income in 2016 amounts to € 18 million in 2016 (2015: € 19 million) and is further explained in the table below.

Breakdown Investment Income

Amounts in € million	2016	2015
Debt securities (Interest):	10	13
Loans (Interest)	13	15
Other investments (Interest)	-/- 4	-/- 3
Shares (Dividend income)	1	0
Investment income from discontinued operations	-/- 2	-/- 6
Total	**€ 18**	**€ 19**

2 Results from financial transactions

The results from financial transaction in 2016 amounts to € 13 million and relates completely to realized gains / (losses) on financial investments:

Breakdown Results from financial transactions

Amounts in € million	2016	2015
Realized gains / (losses) on financial investments	23	2
Net fair value change of derivatives	0	-/- 1
Net fair value change on financial assets at fair value through profit or loss other than derivatives	0	0
Total from discontinued operations	-/- 10	-
Total	**13**	**1**

The realized gains on financial investment are caused by the sale of a significant amount of investments in order to complete the transactions with Allianz Benelux.

b. Information about Investment performance through equity

Investment performance through equity

Amounts in € million	2016	2015
Gains / (losses) on revaluation of available-for-sale investments	31	-/- 15
Net gains / (losses) transferred to income statement	-/- 23	-/- 2

Investment performance through other comprehensive income
The gains / (losses) on revaluation of available-for-sale investments and net gains / (losses) transferred to income statement of available-for-sale investments are relevant attributors that are included in the statement of other comprehensive income in the IFRS financial statements. Both attributors relate to the revaluation of assets that classified as available for sale, such as certain debt securities. Interest rates in 2016 declined which resulted in a positive unrealized revaluation of available for sale investments in 2016 compared to a negative unrealized revaluation of available for sale investments in 2015 as a result of a rise interest rates in 2015.

A.4. Performance of other activities

Aegon Schade does not perform any other activities than underwriting and investing activities. Therefore, overall performance is disclosed under A.2 Underwriting performance and A.3 Investment Performance.

A.5. Any other information

All relevant information is covered in the previous sections.

B. System of governance

B.1. General information on the system of governance

B.1.1. Role and responsibilities of the Executive Board and Supervisory Board

Aegon Nederland N.V. – Executive Board and Management Team NL
Aegon Nederland N.V. is the holding company of Aegon Schade and several other companies, such as Aegon Levensverzekering N.V., Aegon Spaarkas N.V., Optas Pensioenen N.V., and Aegon Bank N.V., which together form the Aegon Nederland-group. The Executive Board of Aegon Nederland centrally manages the Aegon Nederland-group and also forms the statutory board in charge of the day-to-day management of Aegon Schade. Because Aegon Schade is part of the Aegon Nederland-group, the report on the system of governance will also contain various references to Aegon Nederland, amongst others the key functions that are centrally organized at Aegon Nederland.

At the beginning of 2016, the Executive Board of Aegon Nederland consisted of:
- Mr. M.B.A. Keim (chairman)
- Mr. R. Zomer (chief financial officer)
- Mr. M.J.P. Edixhoven (responsible for the wholesale business)
- Mr. R.M. van der Tol (responsible for the retail business)

As of 3 October 2016
- Mr. W.A. Hekstra was appointed as a member of the Executive Board and assumed the responsibilities for the wholesale business from M.J.P. Edixhoven, in anticipation of the appointment of M.J.P. Edixhoven as chairman of the Executive Board.

As of 1 January 2017
- Mr. M.B.A. Keim retired from the Executive Board and took on another international position within Aegon Group. Mr. M.J.P. Edixhoven succeeded Mr Keim as chairman of the Executive Board.
- Mr. W. Horstmann was appointed as a member of the Executive Board in the function of Chief Risk Officer, responsible for the risk management function.

As of 1 May 2017
- Mr. R.M. van der Tol retired from the Executive Board and was succeeded by Mrs. I. de Graaf.

As of 1 May 2017, the Executive Board consists of five members, being Mr. M.J.P. Edixhoven (chairman), Mr. R. Zomer, Mr. W. Horstmann, Mr. W.A. Hekstra and Mrs. I. de Graaf.

The Executive Board is charged with the management of Aegon Schade, which means, among other things, that it is responsible for setting and achieving Aegon Schade's objectives, strategy and the associated risk strategy and risk tolerance, the ensuing delivery of results and corporate social responsibility issues that are relevant to Aegon Schade. The Executive Board is accountable for these matters to the Supervisory Board and the General Meeting of Shareholders. The Executive Board members are collectively responsible for the management of Aegon Schade and is responsible for ensuring that Aegon Schade is compliant with all relevant laws and regulation, managing risks and for financing of Aegon Schade. The Executive Board reports on these issues to and discusses the internal risk management and control systems with the Supervisory Board, the Risk & Audit Committee of the Supervisory Board.

In 2016, the Executive Board established the Management Team Aegon Nederland ("MT NL") advising the Executive Board at strategic and tactical level. In 2016 the MT NL consisted of the following members:
- All members of the Executive Board
- Chief technology officer
- Chief people officer (director of human resources)
- Chief strategy and change officer
- The chief executive officer of the strategic domain Bank & Beleggen
- Chief investment officer
- The chairman Knab (Knab Advies en Bemiddeling N.V.)

Supervisory Board

Aegon Schade has a Supervisory Board which is responsible for supervising the policy of the Executive Board and the general course of affairs within Aegon Schade and its related businesses. The Supervisory Board is also responsible for advising the Executive Board. The Supervisory Board of Aegon Schade has the same composition as the Supervisory Board of Aegon Nederland and the other insurers within the Aegon Netherland-group.

At the beginning of 2016, the Supervisory Board consists of five members; Mr. J.A.J. Vink (chair), Mr. D. Terpstra, Mr. G.T. Kepecs, Mr. L. Jongsma and Mr. D.D. Button.

As of 1 April 2016

- Mr. L. Jongsma resigned from the Supervisory Board and was replaced in August 2016 by Mrs. D. Jansen Heijtmajer.

As of 1 December 2016

- Mr. D.D. Button resigned from the Supervisory Board.

The Supervisory Board has adopted rules on its way of working and decision making. According to this charter the supervision by the SB shall also include: (i) focusing on the client's interests; (ii) achieving the Company's objectives; (iii) the strategy; (iv) the risks associated with the Company's activities, including the Company's risk policy and risk appetite; (v) the structure and operation of the internal risk management and control systems; (vi) the financial reporting process; (vii) implementation of the Aegon Nederland Remuneration Policy; and (viii) compliance with the applicable legislation and regulations.

The majority of the members of the Supervisory Board are 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.

The Supervisory Board has the following committees:

- Risk & Audit Committee; this Committee has been established by the Supervisory Board from among its members to advise and prepare decisions to be taken by the Supervisory Board and to assist the Supervisory Board in supervising the activities of the Executive Board related to risk, audit and also compliance topics. In 2016 the members consisted of Mrs. D. Jansen Heijtmajer (chairman), Mr. J.A.J. Vink, Mr. G.T. Kepecs and (until December 2016) Mr. D.D. Button. The Risk & Audit Committee held various meetings in 2016 and discussed (amongst others) the quarterly financial results of Aegon Schade, internal regulatory reports (AFM / DNB), periodic Risk Management, Compliance, Audit and Actuarial reports and specific issues relating to the SCR of Aegon Schade. The committee also discussed the outcomes of the ORSA, the "In Control" program (aimed at further strengthening the internal control environment at Aegon Schade) and developments regarding capital management.

- Remuneration Committee; this Committee has been established by the Supervisory Board for drafting a proposal to the Supervisory Board for the remuneration policy to be pursued, drafting a proposal for the remuneration of the individual members of the Executive Board, preparing a proposal to the Supervisory Board for the fees and expense reimbursement of the members of the Supervisory Board and its committees, for the Supervisory Board to propose to the meeting of shareholders for adoption, and preparing the annual remuneration report on the implementation of the remuneration policy. In 2016 the members consisted of Mrs. D. Jansen Heijtmajer (chairman), Mr. J.A.J. Vink, Mr. G.T. Kepecs and Mr. D. Terpstra. The Remuneration Committee held various meetings in 2016 and advised the Supervisory Board about (amongst others) target setting, performance appraisals and the ex-post assessments of the variable pay awarded to identified staff.

Key Functions

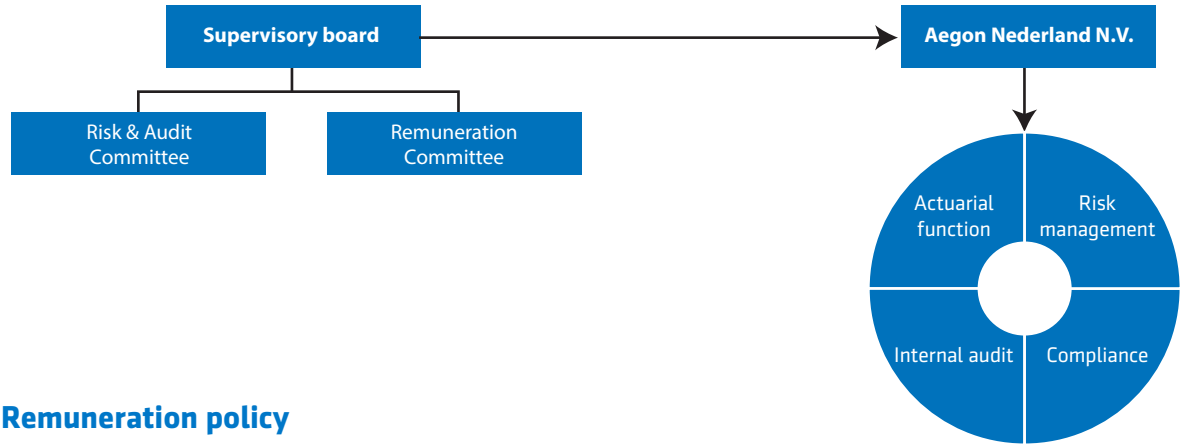
Aegon Nederland N.V. has implemented the following four key functions: the risk management, compliance, internal audit and the actuarial function. These functions have been in place within Aegon for many years.

- Risk management: The CRO is the function holder for risk management. The CRO is also a member of the Executive Board and of top level risk committees. Several of the other Solvency II key functions reside under the CRO to ensure a holistic approach. The organization, roles and responsibilities of the risk management function are more extensively described in paragraph (B.3.2).

- Compliance: The Compliance Officer is the key function holder for compliance. The compliance officer resides under the CRO and is therefore a second line role given Solvency II independence requirements and responsibility for ensuring that the risk profile is managed in line with risk tolerance. The organization, roles and responsibilities of the compliance function are more extensively described in paragraph (B.4.2).

- Internal audit: The Head of Internal Audit is the function holder for Internal Audit. In line with the requirements, Internal Audit is fully objective and independent from all other functions, reporting directly into the CEO and Supervisory Board Risk & Audit Committee. The organization, roles and responsibilities of the internal audit function are more extensively described in paragraph (B.5).

- Actuarial function: The function holder is the Chief Actuary / Head of Financial and Underwriting Risk Management residing under the CRO within the second line of defense. The organization, roles and responsibilities of the risk management function are more extensively described in paragraph (B.6).



B.1.2. Remuneration policy

General
All employees working at Aegon Schade, are employed at and have a labor contract with Aegon Nederland. The salaries, social security contributions and pension contributions for staff working for Aegon Schade are recharged to Aegon Schade by Aegon Nederland.

Aegon Nederland and the insurers within the Aegon Nederland-group such as Aegon Schade, pursue a careful, sound and sustainable remuneration policy. The policy is in line with the requirements stipulated in the DNB Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid) and the Law on Remuneration Policies for Financial Institutions (Wet beloningsbeleid financiële ondernemingen or "Wbfo") and is also applicable to Aegon Schade.

The remuneration policy applies to the Executive Board, 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 remuneration policy is in line with the strategy, vision, core values and risk appetite of Aegon Nederland, including Aegon Schade. This means that the level of variable remuneration for employees is discussed in meetings of the Supervisory Board, as well as the financial performance criteria that is applied to variable remuneration. These are adjusted for the estimated risks and cost of capital, whereby the variable remuneration components are in line with Aegon Nederland's, including Aegon Schade's long-term objectives. The maximum variable remuneration is – depending on the role - 60% or 30% of fixed income for members of the management team (the 'at target level' is 40% or 20%) and 12% for other senior management ('at target' 8%). In line with the Wbfo, that has been effective since 28 February 2015, the total variable remuneration of senior management (including members of the Management Team) does not exceed 20% of fixed income for the whole of Aegon Nederland.

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

Variable remuneration is based on performance relating to pre-set targets at 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. Financial targets include the realization of pre-set values for Net Underlying Earnings, Return on Capital, operational costs, MCVNB and capital generation. The non-financial targets include customer oriented targets like T-NPS- and employee oriented targets like E-NPS scores. For employees working fully dedicated for Aegon Schade, also Aegon Schade specific KPI's are in place.

Under the governance provisions of the 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 2016.

The governance provisions in the 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 2016, there was no claw back of variable remuneration from members of the management team or other Identified Staff.

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

The remuneration policy and its implementation was discussed in meetings held by the Supervisory Board on several occasions during 2016. The Supervisory Board also discussed the level of variable remuneration. As of 2015, the so-called bonus pool has been established and applied for the performance year 2016. The Supervisory Board approved the 2016 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 2016, with due regard to the assessments required under the AGGRF. This remuneration was within the remuneration policy. No retention payments were made. Welcome and exit arrangements were granted in 2016 within the guidance of the policy.

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

B.1.3.1. Principles of the remuneration policy

Members of the Executive Board as well as other selected jobholders have been defined as Identified Staff in accordance with new rules, guidelines and interpretations. Of these, the Dutch 2015 Wbfo, the DNB Regulation on Sound Remuneration policies 2014 and the guidelines issued by the European Banking Authority and its predecessor issued under the successive European CRD frameworks (in particular CRD III and IV) 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 are conditionally granted at the beginning of the year at the average share price 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 Executive Board, Aegon Nederland's Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested. For members of the Executive Board 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 Executive Board are not entitled to execute any transactions regarding the shares for a period of

three years following vesting (with the exception of shares withheld 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 closed periods.

B.1.3.2. Share options, shares or variable components of remuneration

In 2016, there were no dismissals in the Executive Board. None of the members of the Executive Board were entitled to a variable remuneration of more than 60% of the annual salary. On average, no more than 20% variable compensation was allocated.

Variable remuneration for the Executive Board and other Identified Staff were paid 50% in cash and 50% in shares of Aegon N.V.. In 2016, in accordance with Aegon Nederland's Remuneration policy, 40% of the 2015 variable remuneration was paid directly to members of the Executive Board 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 Aegon N.V. has 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 Executive Board.

As stated earlier all employees working at Aegon Schade, are employed at and have a labor contract with Aegon Nederland. The salaries, social security contributions and pension contributions for staff working for Aegon Schade are recharged to Aegon Schade by Aegon Nederland. The table below provides insight at Aegon Nederland level in the share options, shares or variable components with regard to the remuneration. For Aegon Schade the recharge for employee expenses in 2016 amounts to € 76 million.

Employee expenses in € million	**2016**	**2015**
Salaries	232	229
Post-employment benefit costs	133	135
Social security charges	38	35
Other personnel costs	82	102
Shares, share appreciation rights, share options and LTIP	1	2
Total	**485**	**503**

Source: Annual Report Aegon Nederland

B.1.3.3. Supplementary pension or early retirement schemes for the members of the administrative , management or supervisory body and other key function holders

Members of the Executive Board, Supervisory Board and key function holders are offered pension arrangements and retirement benefits conform the standard Aegon Nederland arrangement. Pension arrangements do not include discretionary elements.

Aegon Schade does not grant Executive Board members and Supervisory Board members personal loans, guarantees or other such arrangements, unless in the normal course of business and on terms applicable to all employees, and only with the approval of Aegon Nederland's Supervisory Board.

B.2. Fit and proper requirements

B.2.1. Requirements for skills, knowledge and expertise

Executive Board

To fulfil their tasks, the specific skills that members of the Executive Board of Aegon Schade should have at their disposal include: Leadership (i.e. ideas, people and change); Strategic thinking and sound judgment, Financial and commercial acumen, particularly around complex and inorganic change activities; Influencing and relationship building; Communication; Delivery with clear focus on outcomes; Innovation and problem solving and Customer-centricity. Moreover, the members of the Executive Board should possess knowledge and experience in the areas of:

1. Strategic understanding of and insight into the financial services industry, with particular emphasis on the challenges and opportunities associated with achieving success for a market leading life and pensions and digitized platform company;
2. Specifically, good understanding of the different regimes associated with Insurance and Investments, including capital management and regulatory frameworks; and
3. Extensive industry and executive management experience in a number of financial, operational and strategic roles – an industry leader respected by regulators, trade associations and government bodies; and Proven ability to lead complex transactions across an organization, including inorganic activity.

Requirements for skills, knowledge and expertise are also reflected in the Executive Board profile which has been drawn up for the Executive Board and which is updated periodically.

Supervisory Board

The Supervisory Board, as a collective, should have qualifications including an international composition; experience with, and understanding of the administrative procedures and internal control systems; an affinity with and knowledge of the industry, its clients, its products and services, the financial services market and Aegon Schade's businesses and strategy; knowledge and experience in (digital) marketing and distribution and the applications of information technology; expertise and experience in digital transformation; experience in the business world, both nationally and internationally; and financial, accounting and business economics' expertise and the ability to judge issues in the areas of risk management, solvency, actuarial currencies and investment and acquisition projects.

Requirements for skills, knowledge and expertise are also reflected in the Supervisory Board profile which has been drawn up for the Supervisory Board and which is updated periodically.

B.2.2. Fit and proper requirements of persons

In accordance with the Dutch Financial Supervision Act, Aegon Nederland has identified, in addition to the members of the Executive Board and Supervisory Board, those persons that fulfil "key functions". This group of persons concerns the so-called 'second-tier senior officers' (to which fit and proper testing is applicable as stipulated in the Wft), which includes the key functions as referred to in art. 294 (2) of the Solvency II Delegated Regulation. These second-tier senior officers are subject to an internal pre-employment screening prior to their employment within Aegon Nederland in which Aegon assesses their integrity, as well as an assessment of their fitness and suitability for the relevant function. These persons also undergo an integrity assessment performed by the Dutch supervisory authorities prior to their appointment in a key function. Ongoing compliance with fit and proper requirements is a joint responsibility of the respective person as well as Aegon Nederland. Persons that fulfil key functions also undergo an internal fitness assessment process. Within this process the resume of the candidate will be assessed, interviews are held and the skills and expertise of the candidate is checked against the function profile.

Aegon Nederland facilitates various education programs for Executive Board, Supervisory Board and other key functions. The 2016 and 2017 programs focused on the following relevant areas: (i) management, organization and communication, (ii) products, services and markets, (iii) sound business and (iv) balanced and consistent decision making. As a follow-up to the earlier programs, the themes covered in the programs for 2014 and 2015 could be categorized as: current developments and essentials in the financial sector in general and insurance in particular; developments in supervision (EU/World) and financial frameworks and legislation (Solvency II, IFRS, Tax and Wft); management control, risk management and compliance; strategy, ethics, culture, product approval and duty of care towards the client; and Asset and Liability Management ("ALM"); integrity, soft controls, values and financial behavior and financial reporting, performance measurement and remuneration policies.

Executive Board

The members of the Executive Board have broad-based commercial backgrounds and experience in the financial sector in general and in insurance in particular. With this wide range of experience they have the knowledge and fully understand the valuable function of insurance companies in society and are making their decisions in the interests of all Aegon Nederland's stakeholders. Each member of the Executive Board 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.

All members of the Executive Board have been made subject to fit and proper testing by DNB, prior to their appointment and fulfil these requirements on an ongoing basis. The members of the Executive Board are also subject to an internal pre-employment screening prior to their employment within Aegon Nederland in which Aegon assesses their integrity, as well as an assessment of their fitness and suitability for the relevant function within the Executive Board.

The knowledge of the members of the Executive Board 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 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.

In 2016, the Supervisory Board evaluated the Executive Board. This included looking at expertise. It was noted that the Executive Board was functioning well and that the members held sufficient expertise. Formal confirmation took place at the beginning of 2017. In its decisions, the Executive Board 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.

Supervisory Board

Individual members of the Supervisory Board will be assessed on the basis of personal qualifications including: managerial experience and skills at the highest levels; experience with large listed companies; understanding of a global business; entrepreneurial attitude; sound business judgment, common sense and decisiveness; independence and a sufficiently critical attitude with regard to the other Supervisory Board members and the Executive Board and international orientation and outside experience.

All members of Aegon's Supervisory Board have been made subject to fit and proper testing by DNB prior to their appointment and fulfil these requirements at an ongoing basis.

In Aegon's view, the members' knowledge and experience complement each other. Aegon has set out in detail the Supervisory Board's duties in the Supervisory Board Charter. Aegon has an up-to-date profile of the Supervisory Board, further specifying and recording its vision on the membership. The profile is tailored to Aegon Nederland's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards.

The members of the Executive Board act in a careful, expert and fair manner. They keep up to date with developments in legislation and regulations, partly through the permanent education program. All members of the Executive Board signed the ethics statement as required in the Principles and requirements of DNB's Suitability Policy Rule 2012 (Beleidsregel geschiktheid 2012). They also took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations.

B.3 Risk management system including the own risk and Solvency assessment

B.3.1. Risk management system

ERM is a process which is applied and designed to anticipate, identify and manage potential events that may affect Aegon. The aim is to manage risk within Aegon's risk tolerance in order to provide reasonable assurance regarding the achievement of Aegon's objectives.

For Aegon, ERM involves:
1. Understanding which risks the company is facing.
2. Establishing a firm wide framework through which risk return trade-offs can be assessed.
3. Establishing risk tolerances, and supporting policies, for the level of exposure to a particular risk or combination of risks.
4. Monitoring risk exposure and actively maintaining oversight over the company's overall risk and solvency positions.

The Enterprise Risk Management ("ERM") Framework is based on the international accepted standard COSO ERM and lays the foundation for managing risk throughout Aegon's operations. Aegon Nederland's subsidiaries must adhere to Aegon's ERM framework and be able to demonstrate compliance for internal and external reviews. The ERM framework applies to all material businesses of Aegon for which it has operational control.

ERM Building Blocks
Aegon's enterprise risk management process can be decomposed into multiple components. However, enterprise risk management is not strictly a serial process, where one component affects only the next. It is a multidirectional, iterative process in which almost any component can and does influence another. The principles and requirements of ERM apply on all organizational levels and concern both financial and operational risks. Risks are managed from multiple perspectives, including economic, regulatory and accounting. Relevant metrics in ERM include capital, earnings, liquidity and franchise value.

Figure : Building blocks of Enterprise Risk Management framework

Risk Strategy:	The first building block in the enterprise risk management process is the formulation of an enterprise risk management strategy. The risk strategy forms the basis for the risk tolerance statements, which are specified in terms of financial strength, continuity, culture and risk balance and are translated into operating guidelines for the various risk types.
Risk Tolerance:	Risk Tolerance includes the risk appetite of Aegon Nederland including qualitative risk tolerances that are the basis to support the business in making decisions about whether risks are within appetite, acceptable or need to be mitigated or avoided. Qualitative tolerances are to be determined by management based on the values and principles of Aegon and should be in line with the company's purpose, values, objectives, Code of Conduct, and Market Conduct Principles.
Risk Identification:	The risks that Aegon Nederland faces are identified and presented in the risk universe. An emerging risk process ensures that the risk universe will capture the full spectrum of risks. In order to assess the risks, Aegon has developed a methodology for measuring the risks as defined in the risk universe.
Risk Assessment:	Aegon Nederland's approach to evaluating risks is based on the quantitative and qualitative rating of those risks with regard to their potential impact and likelihood after consideration of the effectiveness of controls. Risk impact is assessed along the following three impact dimensions: financial loss, customer & reputation, and financial misstatement. The resulting ratings reflect the uncontrolled (residual) risk the business area is running.
Risk Response:	Once the risks have been identified, evaluated and prioritized, an appropriate risk response needs to be defined. Action plans are developed and managed if Aegon Nederland's risk tolerances are violated.
Risk Reporting (& Monitoring):	Compliance with the risk tolerance statements and the risk policy requirements is monitored and reported on a periodic basis to operational management. Through a formal Risk & Audit Committee senior management is informed on their forward looking risk profile on a quarterly basis, together with details of action plans that address key risks. In the quarterly report the CRO's opinion on the effectiveness of those plans is formalized.

Aegon Nederland controls the risk it faces along various dimensions through its risk governance framework, risk monitoring, model validation, and embedding of risk management into functional areas, such as business planning, capital planning and management, remuneration, pricing and product development. Risk control is further supported by a strong risk culture and effective compliance risk management. The execution of these building blocks is a continuous and iterative undertaking, including periodic or ad hoc adjustment of the strategy and risk tolerance based on new risk information or changes in the business (environment). The full enterprise risk management methodology is formalized in the ERM Manual, ERM policy and underlying detailed policies and manuals.

B.3.2. Implementation of risk management system

The Risk Management Function is responsible for advising the Executive Board and Supervisory Board on the assessment and definition of the risk appetite and the risk tolerance levels, and to advise the Executive Board on the acceptance of specific risk events based upon impact analysis. Furthermore the Risk Management function supports the management teams to raise awareness on Risk Appetite and established good business practices and in identifying, assessing and overseeing the mitigation of Risks.

The Risk Management function reports periodically and, if needed ad hoc, on risk matters that require the attention of the Executive Board. Such reports must include, as a minimum, exceeded risk tolerance levels and unacceptable business practices. The CRO reports each quarter on topics such as incidents and other information about risks, and meets with the Supervisory Board Risk & Audit Committee at least twice a year. Immediate reporting is required regarding significant incidents and are sent to both the next higher level within the Risk Management Function and simultaneously to the responsible business manager. If required by external rules or supervisors they also report the incidents to the external supervisor. The CRO has an escalation reporting line to the Supervisory Board (Risk & Audit Committee) and a functional reporting line to the Group CRO.

The Risk Management Function is headed by the CRO and includes the Risk Managers and other staff reporting to the CRO. These include the Risk Managers appointed as such and working within Aegon for its relevant business lines (e.g. life & mortgages, non-life, pensions) those working for Aegon Nederland subsidiaries (e.g. Aegon Bank N.V. (incl. KNAB), Aegon PPI B.V., TKP Pensioen B.V., TKP Investments B.V., Unirobe Meeus Groep (UMG) B.V.). To ensure a consistent approach within the entire organization all aforementioned Risk Managers will meet regularly. In addition to this the Risk Managers for the aforementioned business lines will meet periodically.

The Risk Management Function operates independently from the business, this is established using the following principles:

1. The Risk Management Function has a formal status, which is stated and communicated through the risk charter;
2. Risk Managers within report to the CRO;
3. The CRO has a functional reporting line to the Group CRO in accordance with the responsibility matrix and consultation process set forth in the Group Risk Management Charter;
4. A Risk Manager, in particular the CRO, is not placed in a position where possible conflict of interest may occur between risk responsibilities and any other responsibilities; and
5. The Risk Management Function staff is entitled to have access to the information and personnel necessary to carry out their responsibilities.

B.3.3. Own risk and solvency assessment

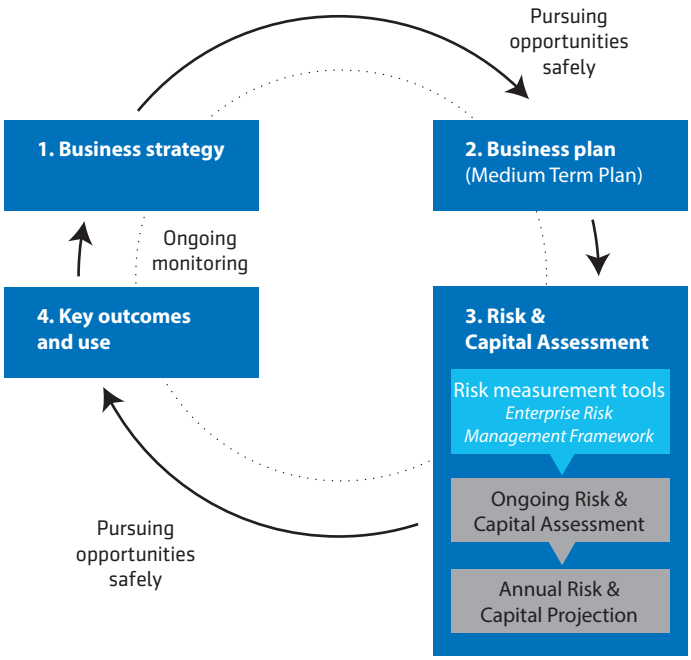
The Own Risk and Solvency Assessment ("ORSA") is a key internal process with key elements of the capital management and risk management processes which support the business in pursuit of fulfilling its business strategy. The ORSA is presented and reviewed, at least annually, key sections are updated as required throughout the year following changes in risk profile. This helps management to anticipate potential capital needs and take appropriate action.

The ORSA is a continuous process which builds on the existing risk and capital management and business planning processes across the Aegon Nederland-group. The ORSA unites these processes under a single framework, ensuring key business decisions are based on an internal assessment of risk and associated capital requirements. It connects and aligns risk and capital management, business planning, and strategic decision making processes, and delivers the "ORSA outcomes" (from "Solvency II" Directive 2009/138/EC, Article 45(1)) namely:

- "the assessment of overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- the compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions; and
- the comparison of the risk profile with the assumptions underlying the Solvency Capital Requirement and internal model."

A graphical overview of the ORSA process is provided below. The process is iterative and subject to ongoing monitoring to ensure the ORSA responds to major changes impacting the business.

1. The business strategy for Aegon is set. The financial strategy for Aegon must be set to support the business strategy.
2. The business plan combines the business and financial strategy to calculate key results.
3. The risk & capital assessment must include the identification, measurement, management and monitoring of risk.
   The capital needs of the business must be considered taking account of the proposed strategy and the acceptable level of the associated risks in pursuit of that strategy. The assessment must take into account both the present and the future. Aegon's Economic Framework and standard formula are key tools used in the measurement and quantification of risk. The output from the business strategy, financial strategy, business plan and the risk and capital assessments (together the Budget/MTP process) must be used in the decision making process.
4. "Use" applies across a spectrum of areas including asset & liability management, product development and pricing.

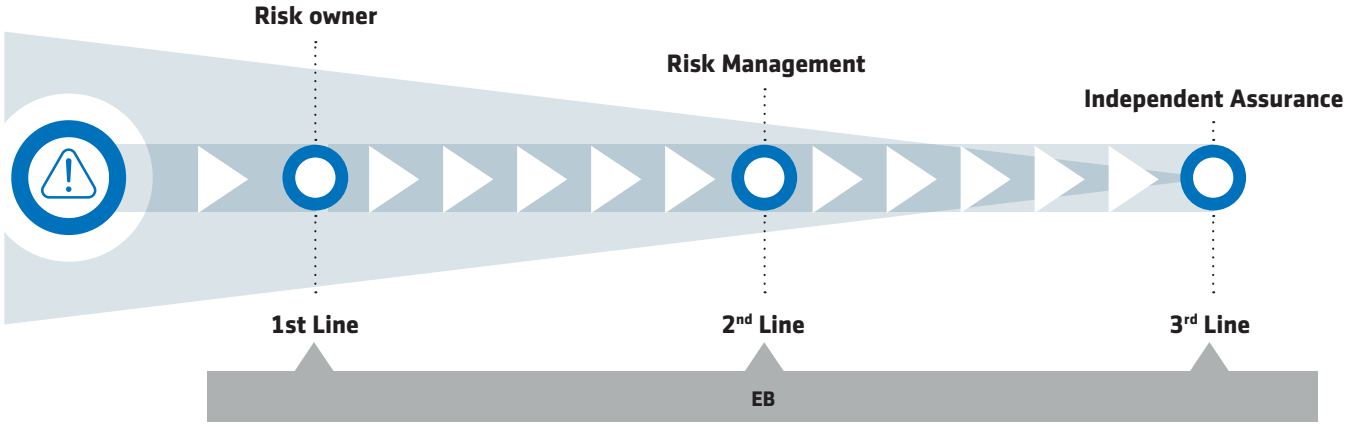


B.4. Internal control system

B.4.1. Internal control system

In order to ensure conscious risk-return decisions and limit the magnitude of potential losses within defined levels of certainty, Aegon Nederland's internal control environment has been established based on the principles of the 'Three lines of defense' model.

Figure: 3 lines of defense model



The three lines of defense are represented by the following: 1) risk owners, 2) risk managers, and 3) independent assurance. The overall responsibility for risk management lies with the Executive Board. The application of the three lines of defense structure enables a professional risk culture where risk management can be optimally embedded within the business.

First line of defense: Risks naturally arise out of Aegon Nederland's business activities, in particular through the sales and administrative processing of insurance policies and balance sheet and capital management. Business management is directly responsible for the processes on which achievement of the company's objectives depends. They are responsible for risk identification, risk assessment and, especially, the control of all material risks in their area of activity, consistent with applicable risk tolerances and risk policies.

Second line of defense: The risk functions and committees, being the second line of defense, facilitate and oversee the effectiveness and integrity of ERM across the company. They facilitate ERM by developing, maintaining, and supporting the implementation of risk governance, risk tolerances, risk policies, risk methodology and risk management information. The role of the second line is also to oversee policy compliance, to maintain objectivity in business decisions and to challenge business management in this context. Risk policy breaches and excessive risk taking are escalated as needed. In this regard, the CRO has the authority to defer Risk & Capital Committee decisions that can have a material adverse impact on the company's solvency, liquidity or operations to Board meetings. In addition to those mentioned above, second line of defense is also responsible for model validations.

Third line of defense: Audit along with its committees provide the third line of defense and is a function directed by and accountable to the Executive Board, principally through its Risk & Audit Committee. It is independent of senior management, which has responsibility for the first and second lines of defense, and is therefore able to provide independent assurance opinions on the effectiveness of the systems of internal control and risk management.

B.4.2. Implementation of the compliance function

Within its mission it is the purpose of the Compliance Function to advise the Executive Board and the Supervisory Board on the assessment and definition of the Compliance Risk Appetite and the risk tolerance levels, and to advise the Executive Board on the acceptance of specific risk events based on impact analysis. Furthermore the Compliance function supports management by raising awareness of Compliance Risk Appetite and established good business practices, and by identifying, assessing and overseeing the mitigation of Compliance Risks.

The Compliance Function consists of the Head of Compliance and all Compliance Officers and other staff reporting to the Head of Compliance. These include the compliance officers appointed as such and working within Aegon Nederland for all organizational business units (segments), and those working for Aegon Nederland subsidiaries. To ensure a consistent approach within the entire organization the aforementioned Compliance Officers will meet regularly to coordinate. In addition to this the Compliance Officers for the business lines will meet periodically.

All Compliance Officers of Aegon, including the Compliance Officers of the Aegon Nederland subsidiaries, have a functional reporting line to the Head of Compliance. The CRO or the Head of Compliance on his behalf, has a 'veto right' in relation to the appointment and terminations of Compliance Officers in the aforementioned subsidiaries. The Head of Compliance has an escalation reporting line to the Supervisory Board (Audit/Risk Committee) and to the Global Head of Regulatory Compliance and Global Head of Operational & Conduct Risk Management. Furthermore the Head of Compliance is entitled to investigate or have investigated (independently or on its behalf) compliance with this Charter by performing Compliance monitoring activities. The Head of Compliance reports each quarter to the Management Board, through the CRO, on the topics mentioned above and meets with the Supervisory Board or the Risk & Audit Committee at least twice a year.

The Compliance Function shall be independent from the business, this is established using the following principles:

1. The Compliance Function has a formal status, which is stated and communicated through this Charter;
2. A Compliance Officer, in particular the Head of Compliance, is not placed in a position where possible conflict of interest may occur between compliance responsibilities and any other responsibilities; and
3. The Compliance Function staff are entitled to have access to the information and personnel necessary to carry out their responsibilities.

B.5. Internal audit function

B.5.1. Implementation of the internal audit function

Aegon's Internal Audit Function ("Internal Audit") assists the Executive Board, the Risk & Audit Committee of the Supervisory Board and Senior Management in protecting Aegon's assets, reputation, and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. Aegon has implemented the 'three lines of defense model'. The (line) management control is the first line of defense. Risk management, the risk control and compliance oversight functions are the second line of defense, and independent assurance is the third line of defense. As part of this assurance Internal Audit recommends improvements which are agreed with management and pursues corrective actions on identified issues until implementation.

Additionally, Internal Audit executes advisory services related to the evaluation and improvement of the management control environment of Aegon. When providing advisory services, Internal Audit needs to maintain operational independence. Opportunities to strengthen the existing management control environment, effectiveness and Aegon's reputation may be identified during all our activities. Internal Audit derives its authority from their respective Boards and is authorized to examine the internal controls, risk management and governance processes in all areas of Aegon.

B.5.2. Independence of the internal audit function

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit. The purpose, objectives and responsibilities of the Internal Audit function of a Country Unit and of Group Internal Audit function are covered in the Internal Audit Charter and is aligned with the (inter)national professional auditing standards. Internal Audit avoids any conflicts of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions.

Internal Audit does not execute any operational duties for Aegon Schade and will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted. The Aegon Nederland Chief Audit Executive reports functionally to the Country Unit Chief Executive Officer. To ensure the independence of the auditors and effective governance, the Aegon Nederland Chief Audit Executive has a reporting line to the Group Chief Audit Executive, as well as to the respective Country Unit Risk & Audit Committee and to the Supervisory Board.

B.6. Actuarial function

Aegon implemented various "actuarial roles" to ensure proper and efficient pricing and valuation of policyholder liabilities and to embed actuarial considerations in key management decisions in order to ensure continuity of Aegon and to support the creation of sustainable value for all our stakeholders.

The Executive Board of Aegon Schade have positioned the Actuarial function as defined in Solvency II in the second line of defense. This actuarial function is a sub-function of the Risk Management function under the CRO. The Actuarial function operates independently from the first line actuarial functions and other functions, is represented in various risk committees and reports to the board and the audit committee. An Actuarial Function Holder is appointed who is responsible for the Actuarial Function.

Main tasks and responsibilities of the Solvency II Actuarial function

In line with Article 48 of the Solvency II directive and in line with objectives described in the Aegon Global charter of the actuarial functions, the main responsibilities of the Solvency II Actuarial Function are to:

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies, underlying models and the assumptions made in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system.

B.7. Outsourcing

Aegon Schade has outsourced certain critical and/or important operational functions or activities related to front-, mid- and back-office processes. As stated earlier all employees working at Aegon Schade, are employed at and have a labor contract with Aegon Nederland This also means that Aegon Schade has outsourced the key functions to Aegon Nederland.

Outsourcing may affect business exposure to operational risk through material changes to, and reduced control over, people, processes and systems used in outsourced activities. Aegon Nederland has developed and formalized an outsourcing Risk Policy to ensure that outsourcing arrangements entered into by Aegon Nederland which can result in material risk are subject to appropriate due diligence, approval and on-going monitoring. All material risks arising from outsourcing activities should be appropriately managed to ensure that Aegon Nederland is able to meet both its financial and service obligations.

The policy applies to all entities and business units of Aegon Nederland, including arrangements where Aegon has a controlling interest in other business units and entities. Furthermore both to outsourcing arrangements with vendor/suppliers as well as to internal outsourcing arrangements within a business unit or between business units of Aegon are in scope of this policy. Aegon has implemented the policy to ensure that outsourcing activities that can result in material risk are managed and under supervision of Aegon Nederland.

B.8. Any other information

All relevant information is covered in the previous sections.

C. Risk profile

This section is outlined as follows. The first subsection (C.1) describes the risk assessment and measurement that applies to all risk types, and in particular the SCR. The second subsection (C.2) discusses the Solvency ratio, and the general approach to sensitivity analysis and stress testing. The third subsection (C.3) outlines the identification and approach to Risk Concentrations.

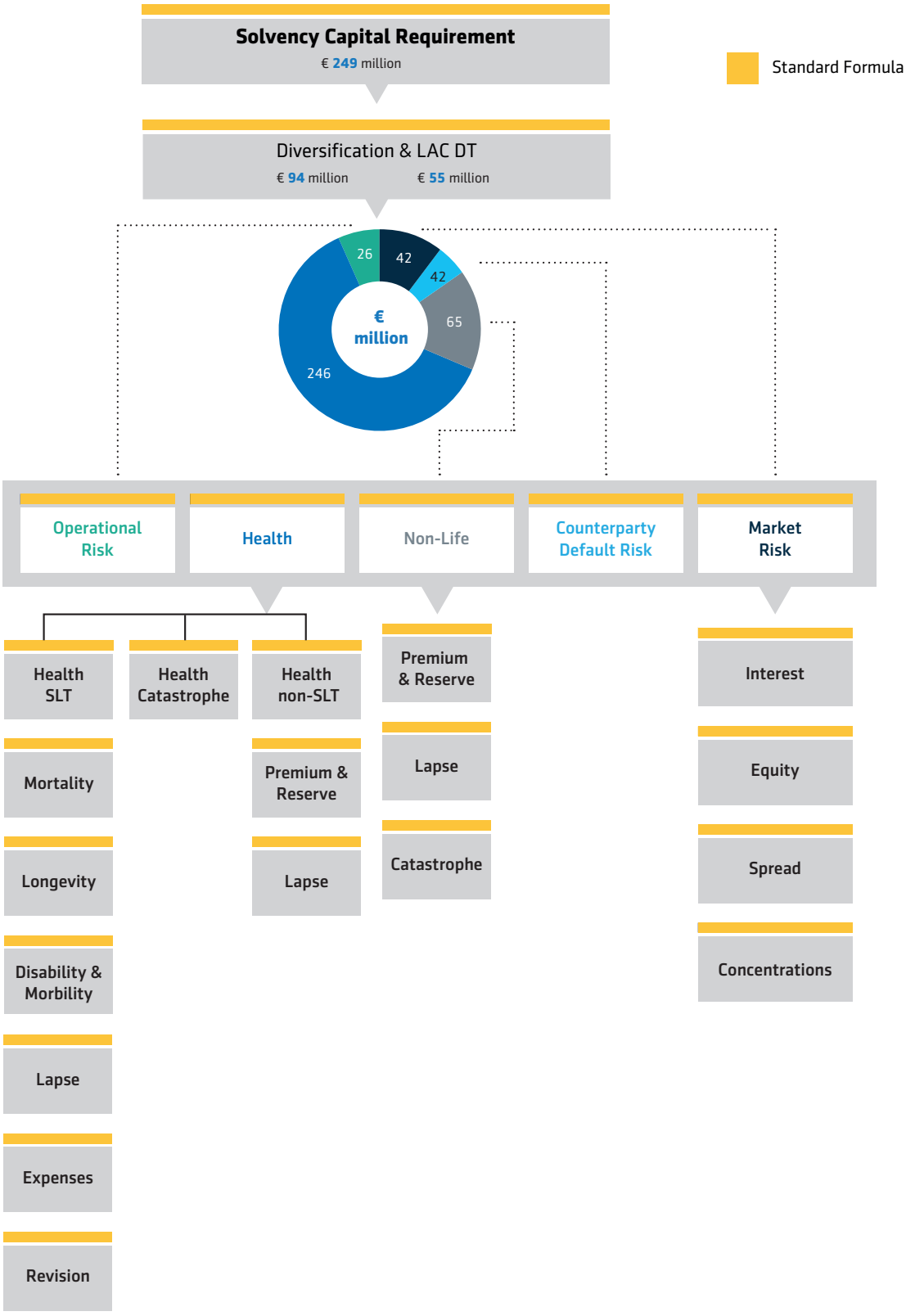
In subsections C.4 through C.8, more detailed information is provided on Underwriting, Market, Credit, Liquidity and Operational risk respectively. Section C.9 discusses the Prudent Person Principle which relates to Market, Credit, Liquidity and Operational risk. Finally, section C.10 comments on other risks and uncertainties.

C.1 Risk Assessment and Measurement: the Solvency Capital Requirement

Assessment of the Risk Profile of Aegon Schade forms part of the ERM framework, which is discussed in section B. Within this framework, risk policies provide specific operating guidelines for Aegon Schade's risk governance and risk tolerance statements. Aegon Schade complies with the risk policies of both Aegon Group and Aegon Nederland. The Aegon Nederland risk policies are tailored to fit local circumstances and therefore imply additional restrictions to the Group policies.

Within the ERM Framework, risk exposures are identified and quantified using the Solvency II standard formula. The standard formula contains separate modules for Market Risk, Counterparty Default Risk, Underwriting risk, Operational Risk and Risk aggregation.

The main measure used in the assessment of risk is the SCR. The SCR is the regulatory capital required to absorb unexpected adverse developments of own funds. The SCR is specified by risk type, and in aggregate across all risk exposures of Aegon Schade. It is set such that the largest unexpected amount of loss that can occur within a period of one year falls below the SCR with a likelihood of 99.5%.


Solvency Capital Requirement
€ 249 million
Standard Formula
Diversification & LAC DT
€ 94 million
€ 55 million
26
42
42
65
246
€ million
Operational Risk
Health
Non-Life
Counterparty Default Risk
Market Risk
Health SLT
Health Catastrophe
Health non-SLT
Mortality
Longevity
Disability & Morbility
Lapse
Expenses
Revision
Premium & Reserve
Lapse
Catastrophe
Premium & Reserve
Lapse
Interest
Equity
Spread
Concentrations

For the aggregate SCR, the mitigating effects of diversification between risks, as well as the loss absorbing capacity of deferred taxes ("LAC DT") are taken into account. Diversification exist as the degree to which different risks are related to one another is, in many cases, limited. As a result, the likelihood of extremely adverse developments of all risks occurring within the same year is extremely remote. The impact of diversification is measured separately within the standard formula.

Furthermore, with regard to the methodology to derive the SCR, it should be noted that:

- For Liquidity Risk, no SCR has been determined, as the Liquidity Risk policy ensures that sufficient liquidity is available with a very high degree of certainty over a period of two years.
- Currently, Aegon Schade assumes that in case a loss in the amount of the SCR were to occur, 75% of the maximum tax deductions can be recovered. Such a recovery is referred to as LAC DT factor, the Loss Absorbing Capacity of Deferred Taxes.
  This LAC DT factor is underpinned by tax benefits of previous year fiscal profits (carry back), current year fiscal profits and potentially current deferred tax liabilities existing pre-shock in the base balance sheet. Furthermore Aegon Schade also uses future profits (including tax planning) to underpin the tax recovery on SCR losses which occur in the future.
  On 3 February 2017 DNB issued an industry wide Q&A with further LAC DT guidance. In this Q&A, it was explicitly mentioned that further substantiation of the LAC DT should be implemented by insurers before end of Q2-2017. Depending on further industry wide regulatory guidance, the LAC DT factor may be subject to a further adjustment.
  One of the scenarios for sensitivity testing investigates the impact the impact of a reduction of the LAC DT factor.

C.2 Solvency Ratio, Sensitivity Analysis & Stress Testing

The Solvency ratio is the main indicator of the ability of Aegon Schade to meet all of its obligations to policyholders and other stakeholders, as and when they fall due. It is defined as follows:

Solvency Ratio = Own Funds / SCR

Own Funds are the assets of the company, valued according to Solvency II principles, in excess of all obligations to policyholders as well as other liabilities that are not subordinated. Own funds, SCR and Solvency ratio at 31 December 2016 are shown below.

Table : Own Funds & SCR 31 December 2016 (million €)

Own funds	SCR	Solvency Ratio 31/12/2016
395	249	159%

The current Solvency Ratio of 159% indicates that own funds are in excess of the minimum required level of the SCR.

In addition to the risk assessment that takes to derive the SCR, Aegon Schade performs sensitivity analyses and stress testing on a regular basis. These are discussed further below.

Sensitivity Analyses

Sensitivity analyses are performed on a bi-annual basis. In these analyses, the impact of instantaneous changes of external factors related to various risk types on Aegon Schade is assessed. For each sensitivity analysis, the immediate impact on Aegon Schade's own funds, SCR, and Solvency Ratio are determined.

An overview of the impact of the sensitivities performed is shown below:

Table: Overview of sensitivity analyses

Scenario	Change to Solvency ratio in Scenario
10% increase in Morbidity Rates	-/- 39%
Interest rate curve +1%	11%
Interest rate curve -/-1%	-/-12%
Credit Spreads + 1%	-/- 5%
Mortgage Spreads + 0.5%	-/- 5%
Loss Absorbency Factor -/- 25%	-/-11%

The methods and outcomes of the sensitivity analyses are described in more detail by risk type in the next sections

Extreme Event Scenarios
Aegon Schade develops extreme events scenarios on an annual basis. These scenarios are based on the position of Aegon Schade on 30 June of each year, and form part of the ORSA. The ORSA process is further discussed in section B.

In the extreme event scenarios, the impact of extreme but plausible scenarios are determined over a multiyear business planning period. Scenarios considered are for example a severe recession, adjustments to the Volatility Adjustment and the Ultimate Forward rate, increase in morbidity rates and changes in laws and regulations.

In each scenario, the impact on net earnings, own funds, SCR and solvency ratio is analyzed, taking into account the mitigating impact of management actions or other applicable measures.

C.3. Risk Concentrations - Identification & Approach

Aegon Schade considers Concentration Risk to be either one of the following type of exposures:
- A relatively high exposure to a single risk within a portfolio of risks. An example is a loan with a high amount to a single counterparty.
- An exposure to a large number of risks that exhibit a high degree of correlation with one another. An example is the outbreak of a pandemic that may cause a large number of disabled people simultaneously.

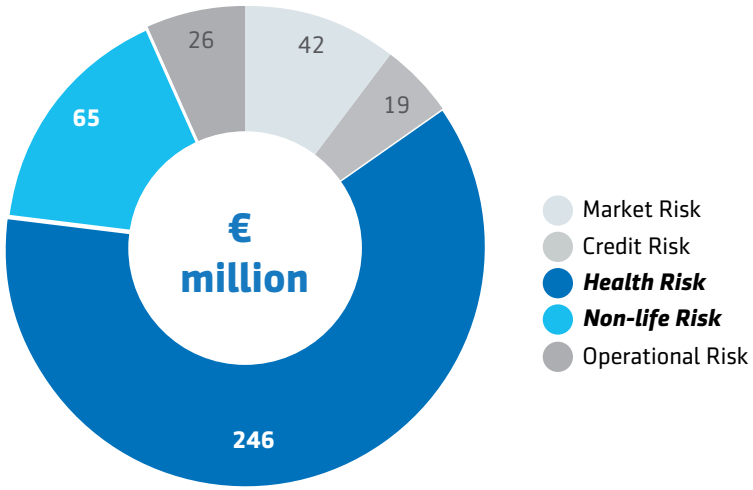
Specific attention for concentration risk is needed specifically in case its impact is not already reflected in the SCR, or other risk assessment method, of the risk type where it manifests itself. In this case, an additional amount of SCR (add-on) for Concentration Risk may be required. If there is no SCR for the risk in question, additional consideration must be given in case concentrations are not reflected in the original risk assessment.

The potential occurrence of risk concentrations is further discussed below in the sections on each of the main risk types: Underwriting, Market, Credit, Liquidity & Operational risk.

C.4. Underwriting risk

C.4.1. Description of the measures used to assess underwriting risks

Figure: SCR Underwriting Risk vs. all other Risks



The main measure used in the quantification of Underwriting Risk is the SCR, as discussed in the beginning of section C. The SCR for Health Underwriting risk amounts to € 246 million and for Non-life Underwriting risk amounts to € 65 million at the end of 2016, before tax and diversification benefits.

Within Underwriting Risk, the risks are further separated in Health underwriting and Non-life underwriting risk, where Health underwriting is further split in Health similar to life techniques ("SLT"), Health non similar to life techniques ("non-SLT") and Health Catastrophe. Aegon Schade has identified the following risk types that are material:

Table: Underwriting Risk types

Risk	Description
Health SLT - Longevity	The risk that improvements in life expectancy result in higher than expected claim payments.
Health SLT - Disability& morbidity	The risk that disability rates are higher and recovery rates are lower than expected.
Health SLT - Lapse	The risk that lapse rates are higher or lower than expected resulting in lower profits and/ or higher claim payments including guaranteed returns.
Health SLT - Expenses	The risk that the value of future expenses is higher than expected resulting in lower profits
Health SLT – Revision	The risk that annuity payments need to be revised following a change in the health status of the insured people
Health non-SLT – Premium&reserve	The risk that premiums rates are set to low or best estimate reserves are set inadequate.
Health - Catastrophe	The risk of a mass accident, accident concentration or pandemic event
Non-life – Premium&reserve	The risk that premiums rates are set to low or best estimate reserves are set inadequate.
Non-life - Catastrophe	The risk of a natural disaster, like windstorm or hail, or a man-made catastrophe

Within Health SLT Underwriting Risk, Disability & morbidity is the dominant risk. Within Non-life and Health non-SLT Underwriting Risk, Premium & reserve is the dominant risk.

Aegon Schade 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 Schade also performs experience studies for underwriting risk assumptions, comparing Aegon Schade's experience to industrywide experience. Also, Aegon Schade's own experience in combination with industrywide experience is compared with Aegon Schade's underwriting assumptions.

C.4.2. Risk Concentrations

Concentrations of underwriting risk arise in case a Catastrophic event causes a large number of claims. Concentration Risks identified by Aegon Schade, with a material impact on own funds are:

- Windstorm & Hail
- Accident Concentration.

The first Concentration Risk is the loss due to one or more Wind or Hail storms causing damage to insured buildings in large parts of the country, net of reinsurance.

The second Concentration Risk represents the net of reinsurance impact of an accident occurring in a single location, affecting a large number of persons carrying some form of Accident & Health coverage provided by Aegon Schade.

C.4.3. Risk mitigation techniques used for underwriting risks

Reinsurance contracts are contracts entered into by Aegon Schade in order to receive compensation for losses on contracts written by Aegon Schade (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance recoverable is recognized for the best estimate future cash flows, adjusted for the expected counterparty default. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Aegon Schade 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 market value balance sheet.

Aegon Schade only reinsures its property, general and motor third-party liability business. The main counterparties are Hannover Re, SCOR Re Europe and QBE Re. The 2016 treaty thresholds are explained below. For property insurance, an 'excess of loss' contract is in place with a retention level of € 1.5 million for each separate risk, and € 15 million for each windstorm event. For motor third-party liability insurance, Aegon Schade has reinsurance in place with a retention level of € 1.5 million for each event. For general third-party liability, Aegon Schade has reinsurance in place with a retention level of € 1 million for each event. During the 2017 renewal, retention levels have been adjusted (reduced) substantially in response to the transfer of a significant part of the Property & Casualty portfolio to Allianz.

The effectiveness of the reinsurance program is annually monitored by the Actuarial Function holder, and reported in the Actuarial Function holder report

C.4.4. Risk sensitivity for underwriting risks

The main underwriting risk for Aegon Schade is Morbidity risk, i.e. the risk that more insured people become disabled. With more insured people disabled, more people receive benefits from their policy.

In the scenario shown below, average morbidity rates increase by 10% in all future years

Table.: Impact of 5% decrease in Mortality Rates

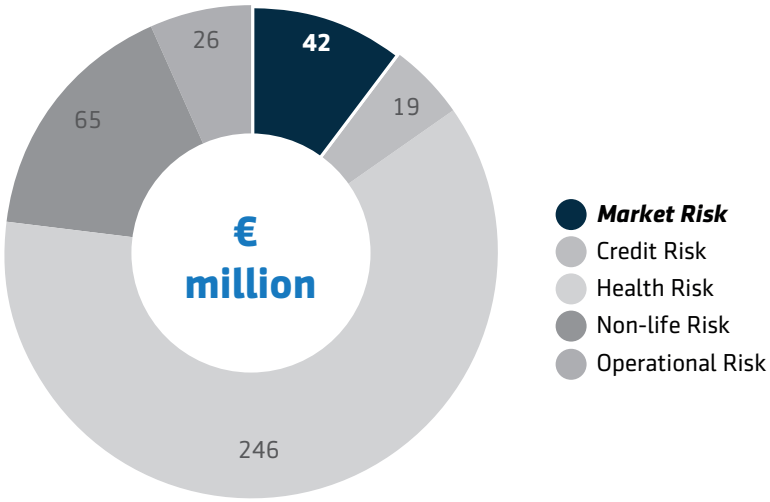
Scenario	Change to Solvency ratio in Scenario
10% increase in Morbidity Rates	-/- 39%

In this scenario, future benefits to policyholders increase markedly, giving rise to an increase in technical provisions and a corresponding reduction in own funds.

C.5. Market risk

C.5.1. Description of the measures used to assess market risks

Figure: SCR Market Risk vs. all other Risks



The SCR for Market risk amounts to € 42 million at the end of 2016, before tax and diversification benefits. Within Market Risk, Spread is the dominant risk.

C.5.2. Risk Concentrations

Concentration of market risks could occur in case relatively high amounts are invested in a single security, or where a collection of highly correlated investments is held. Aegon Schade specifically manages concentration risk within the investment portfolio to mitigate concentration risks. Where concentrations risks exist nonetheless, an additional amount of SCR is held.

C.5.3. Risk mitigation techniques used for Market risks

Aegon Schade operates an Interest Rate Risk policy that limits the amount of interest rate risk to which it is exposed. Capital and risk monitoring result in actions to manage and where necessary, mitigate, the interest rate mismatch. Aegon Schade uses derivatives to closely manage its interest rate risk exposure.

In addition, hedges are in place to mitigate equity risk arising from equities held for own account, guarantees issued to policyholders and volatility of asset management fees.

All derivative use is governed by Aegon Schade's Derivative Use Policy.

C.5.4. Risk Sensitivity for Market risks

For Market Risk, sensitivity tests are performed on a biannual basis with respect to Interest Rates, Equity Prices and Credit Spreads. The methods used and results are discussed below.

Interest rates
The following sensitivities have been analyzed:

1 Increase (decrease) of interest rates by one percentage point.
Interest rates over all durations used for asset valuations are increased (decreased) by 1%. Assets affected include bonds, loans, mortgages, and derivatives.

For technical provisions, interest rates for maturities up to 20 years are increased (decreased) by 1% in the two scenarios shown below. For provisions with maturities longer than 20 years, interest rates converge from the increased (decreased) 20 year rate to a fixed rate derived from the Ultimate Forward Rate of 4.2%. Liabilities other than the technical provisions are not affected.

The impact of these scenarios is shown below.

Scenario	Change to Solvency ratio in Scenario
Interest rate curve +1%	11%
Interest rate curve -1%	-/- 12%

An increase of interest rates by 1% percentage point leads to an increase of own funds. The value of Government Bonds, Derivatives and Mortgages decline in this scenario, and the decline is largely offset by a reduction in the value of technical provisions. The SCR decreases in this scenario, as the shock scenarios are applied to lower base values of asset and liabilities. As a result, the Solvency ratio improves by 11% percentage points.

Conversely, in the scenario where interest rates decrease by 1 percentage point, the value of own funds decreases and the SCR increases and the Solvency ratio reduces by 12% percentage points.

2 Sensitivities to Non-Government Credit Spreads

In this scenario, Credit Spreads on mortgage loans, other loans and bonds, other than government bonds, increase by 1 percentage point. The increase in credit spreads gives rise to a decrease in the value of the Mortgage and Corporate bond portfolios.

Also the value of technical provisions decreases, due to an increase in the Volatility Adjuster ("VA") in line with the increase in Credit Spread. The VA is incorporated in the discount rate, which reflects future interest earnings on technical provisions. As a result of higher anticipated interest earnings, the present value of the technical provisions decreases.

In aggregate, the value of investments as well as technical provisions decrease. As the decrease in the value of assets exceeds

the decrease in the value of the technical provision, the value of own funds decrease.

The impact of this scenario is shown below.

Scenario	Change to Solvency ratio in Scenario
Credit Spreads + 1%	-/- 5%

3 Sensitivities to Mortgage Credit Spreads

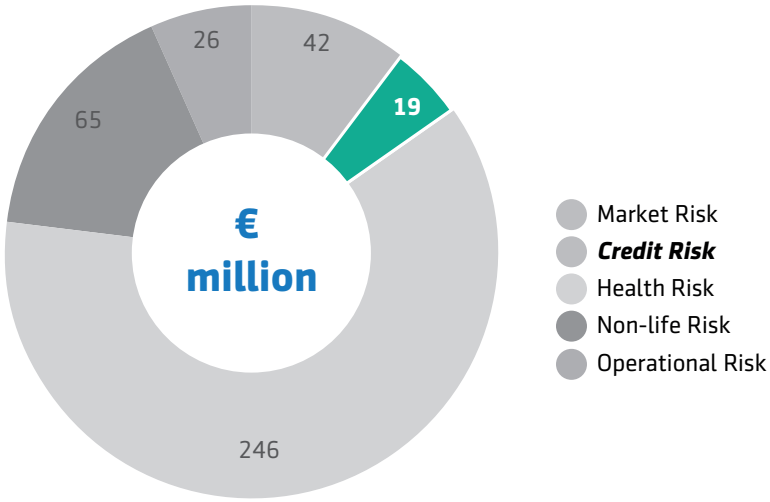
Scenario	Change to Solvency ratio in Scenario
Mortgage Spreads + 0.5%	-/- 5%

In this scenario, own funds decline due to a lower value of the Mortgage Portfolio. Also the SCR decreases as the impact of the SCR shock is applied to a lower base value. In total, the Solvency ratio declines by 5 percentage points as a result.

C.6. Credit risk (Counterparty Default Risk)

C.6.1. Description of the measures used to assess credit risks

Figure: SCR Credit Risk vs. all other Risks



In this section, the Counterparty Default Risk component of Credit Risk, in relation to counterparties of risk mitigating transactions, is discussed. Credit Spread risk, as well as the combined risks of rating migration and default of fixed income assets, have been addressed in the previous section on Market Risk.

The SCR for Counterparty Default risk amounts to € 19 million at the end of 2016, before tax and diversification benefits.

Aegon Schade is exposed to Counterparty Default risk on placements of over-the-counter derivatives and reinsurance as well as outstanding balances on current accounts with major banks.

C.6.2. Risk Concentrations

Concentration within Counterparty Default risk could occur in case relatively high amounts are outstanding with a single counterparty, or if default risks of many counterparties are highly correlated.

An important measure to avoid concentration within credit risk is to diversify and limit exposure to individual issuers. More specifically, Aegon Schade has put in place in place a policy to limit the aggregate exposure to any single counterparty. Exposures are monitored on a weekly basis and any potential violations of exposure limits must be reduced on short notice. Concentration in exposures are managed by setting limits on risk types and single counterparties, by testing extreme scenarios in the Budget/MTP process.

As a result, no Risk Concentrations within Counterparty Default Risk have been identified at 31 December 2016.

C.6.3. Risk mitigation techniques used for Counterparty Default risks

Counterparty risks embedded in derivatives transactions are contained with strong collateral processes that Aegon Schade has put in place in all of its derivatives, through the use of high quality collateral. Central clearing for parts of the derivatives markets has increased the collateral requirements and reduced counterparty risk.

C.6.4. Risk sensitivity for Counterparty Default risks

Given the relatively small amount of the SCR for Counterparty Default Risk, no specific sensitivities have been developed.

C.7. Liquidity risk

C.7.1. Description of the measures used to assess liquidity risks & sensitivity testing

Although most liabilities of Aegon Schade 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 and mortgage loans are not highly liquid. If Aegon Schade 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; and
- Downgrade of Aegon Schade's Credit Rating.

Aegon Schade operates 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 under extreme conditions resulting from unforeseen circumstances. As long as available liquidity is sufficient to meet obligations under normal and stressed conditions, no SCR is held for liquidity risk.

This Policy aims to ensure that sufficient liquidity exists in the asset portfolio to provide for timely payment of all potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events. The liquidity tests quantitatively measure the ability of the market value of the assets to meet all potential cash demands of the liabilities as they fall due. All material assets and liabilities should be included (including non-insurance liabilities such as liabilities to tax authorities and claims arising from lawsuits).

The exposure to liquidity risk is assessed based on a two year liquidity stress period. Extreme withdrawals of liabilities occur as a result of an immediate major downgrade of both Aegon Nederland's long term financial health and short term credit ratings. Furthermore, assets suffer an immediate capital market shock resulting in an inability to sell investments other than 'highly liquid' ones, over a one year period.

Assets and liabilities experience an instantaneous risk free interest rate shock of 1.5%, which increases linearly to 3% after exactly one year. In the second year of the testing period, the interest rate shock remains constant at 3%. In addition, the value of non-highly liquid investments decreases further as a result of a credit spread shock of 1.5%.

In this scenario, available liquidity remains in excess of required liquidity over the entire two year period.

C.7.2. Risk Concentrations

The stressed liquidity scenario described below can be regarded as a concentration with respect to liquidity risk. The liquidity risk policy requires that sufficient liquid assets are available in this scenario.

C.7.3. Risk mitigation techniques used for liquidity risks

No specific risk mitigation techniques, in the form of contracts with third parties, are currently in place for liquidity risk exposures.

C.7.4. Expected Profit in Future Premiums (EPIFP)

The total amount of the Expected Profit in Future Premiums amounts to € 28 million. This amount reflects the current value of the net cash flow expected to arise from in-force contracts until the end date of each contract, only for contracts where such a value is positive.

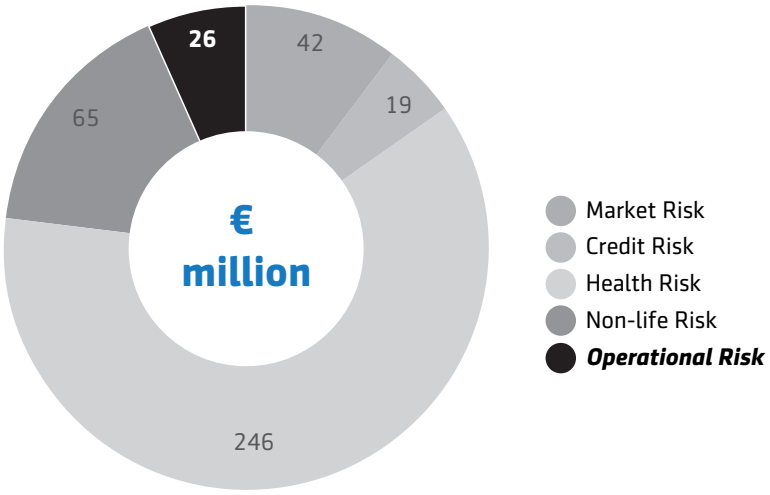
C.7.5. Risk sensitivity for liquidity risks

The sensitivity to liquidity risk is testing using the stressed liquidity scenario described above.

C.8. Operational risk

C.8.1. Description of the measures used to assess operational risks

Figure: SCR Operational Risk vs. all other Risks



The SCR for Operational Risk is determined based on the standard formula under Solvency II. It is based on volumes of premiums and technical provisions. The SCR for Operational risk amounts to € 26 million at the end of 2016 and has slightly increased over 2016. Additional measures have been developed internally for the day-to-day management and assessment of Operational risks.

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes and controls, people and systems or from external events. These definitions highlight the four causes of operational risk events: (1) external events and (2) inadequate or failing processes and controls; (3) people; and (4) systems.

Aegon Schade has identified eight risk event categories in line with the Aegon risk universe. This risk event categorization also supports the preparation of operational risk reporting and analysis that can be interpreted meaningfully across Aegon Group as it defines a common language for the group.

The defined categories of Operational Risk are described in the following table.

Table: Types of Operational risk

Risk Type	Description
Legal and Compliance risk	*Legal and compliance risk is the risk that losses occur due to non-voluntary legal liabilities, inadequate legal documentation, inadequate patenting of brands and intellectual property, and the risk of impairment to the organization's business model, reputation, integrity and financial condition, resulting from failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant legal and regulatory developments, possibly resulting in an inability to influence the final outcome*
Processing risk	*Processing risk is the risk of losses due to inadequate or failing administrative processes and related internal controls, capturing of source data, reporting errors, modelling errors and failing outsourcing and supplier arrangements.*
Business risk	*Business risk is the risk of losses due to failed or inadequate strategy execution, marketing and sales practices, distribution channels, pricing, investment returns, handling of customer complaints, or late reaction to changes in the business environment.*
Tax risk	*Tax risk is the risk of losses due to fiscal authorities challenging Aegon Schade's tax treatment of transactions on technical grounds or as a result of inconsistent argumentation, imperfections in the tax planning, concentration risk and late identification of significant tax developments in relevant jurisdictions, possibly resulting in an inability to influence the final outcome.*
Financial crime risk	*Financial crime risk is the risk of losses due to a wrongful act, omission, breach of duty or trust, intentionally performed by an employee of Aegon Schade, intermediary or external party, which potentially could or results in a disadvantage to Aegon Schade or another.*
People risk	*People risk is the risk of losses due to inadequate or failing employee practices (including discrimination, wrongful termination, and sexual harassment) and consideration for employees' health and well-being, including workplace safety.*
Facility risk	*Facility risk is the risk of losses due to inadequate or failing physical asset management (including physical security incidents and inefficient procurement) and events causing damage to physical assets (vandalism, water damage, fire, explosions, etc.).*
Systems risk	*Systems risk and business disruption risk is the risk of losses due to inadequate or failed business continuity planning, back-up and recovery, fallback arrangements, information security, IT maintenance and change management, identification of relevant technological developments and other technical causes for systems related failures and errors.*

Operational risk is inherent in Aegon Schade's businesses and may manifest itself in many ways, including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, processing errors, modelling errors, and/or internal and external fraud. These events may result in financial loss, harm Aegon Schade's reputation, or hinder Aegon Schade's operational effectiveness.

Aegon Schade's approach to operational risk assessment is based on scenario analysis. Aegon Schade utilizes this approach for internal monitoring and quantification of operational risk. Risk identification takes place through periodic Risk (& Control) Self Assessments ("RSAs" or "RCSAs") to get an understanding of business objectives and identification of operational risks for realizing these objectives.

In 2015, a start was made to design an In Control Strategy as part of the Aegon Nederland strategy with the objective to exceed expectations of clients and other stakeholders to prevent mistakes instead of fixing them and create a culture in which 'first time

right' is the norm, and the main focus is on quality. In 2016 these three pillars culminated to four activities successfully, namely: enriching Aegon Core Values with "in control" aspects, clearing ownership in the organization and developing an "in control dashboard", identifying chain orchestrators and improving incident analysis.

C.8.2. Risk concentrations

Material risk exposures are identified through Risk & Control Self Assessments, including those that may be regarded as concentration risks.

C.8.3. Risk mitigation techniques used for operational risks

No specific risk mitigation techniques, in the form of contracts with third parties, are currently in place for Operational risk exposures, nor under consideration for purchase.

C.8.4. Risk sensitivity for operational risks

Stress testing and sensitivity analysis for Operational risk takes place in the form of scenario analysis as described above.

C.9. Prudent Person Principle

The prudent person principle ensures that assets are managed on behalf of policyholders or other stakeholders in a prudent manner, and covers aspects that relate to market, credit, liquidity and operational risk.
Mandates for investments for own account and for account of policyholders are set out in internal guidelines of Aegon Schade, in order to ensure that prudent person principles are satisfied. Besides that, each investment program is tested on several criteria and authorized by the Risk & Capital Committee ("RCC").

The risks on the investment side are reported in Risk Reporting and more detailed in Reporting done by Aegon Asset Management. There are various risk policies in place to ensure that the assets held are appropriate to the nature of the liabilities without taking on excessive risks:

- The Investment and Counterparty Risk Policy establishes the exposure limit for Investment and Counterparty Risk.
- The Currency Risk Policy limits the amount of currency risk allowed.
- Concentration in exposures are avoided by testing extreme scenarios in the Budget/MTP process and by setting single counterparty limits in the Group Credit Name Limit Policy.
- The requirements related to use of derivatives can be found in the Derivative Use Policy. This policy ensures that a consistent standard of responsible derivative usage is in place across the Aegon Group. In addition, the consolidated reporting of derivative positions provides transparency to derivative usage as well as a demonstration of controls.
- The Securities Lending and Repo Policy ensures a consistent standard for Securities Lending and Repurchase ("Repo") programs within the Aegon Group. This Policy sets out the minimum required processes and documentation standards that must be in place for any unit to operate in these instruments.
- The Reinsurance Use Policy ("RUP") establishes the process with which reinsurance use is conducted in Aegon in order to ensure a consistent high standard of reinsurance use across the Group, to ensure proper internal controls are in place around risks arising from reinsurance (e.g. counterparty risk and basis risk) wherever material and to ensure globally consistent information on Aegon's reinsurance treaties is available.

The requirements related to use of derivatives are specified in the Derivative Use Policy. Key principle here is that derivative programs should be documented and are used for risk mitigation purposes. In general, Aegon Schade manages the asset allocations to prudent levels on the basis of ALM and risk management frameworks.

The prudent person principle requires specific attention to assets that are not traded on regulated financial markets. In this category, mortgages are relevant, as they form a major asset class in which Aegon Schade holds investments. Within the Aegon Nederland

holding, of which Aegon Schade forms part, mortgage loans have been originated and serviced for over thirty years. Therefore considerable expertise exists within Aegon Nederland in these areas.

In addition, the prudent person principle requires that specific attention be given to illiquid assets. Illiquid assets held by Aegon Schade, and mortgages in particular, form a good match with the illiquid profile of Aegon Schade's liabilities. As such, these assets provide an excellent risk-return trade-off for Aegon Schade and its policyholders.

C.10. Other material risks

An indirect risk that is considered by Aegon Schade is an adjustment to the loss absorbing capacity of deferred taxes, as explained at the beginning of this chapter. In the following scenario, the impact of a reduction of the LAC DT factor by 25% points is shown.

Alternative Scenario Name	Change to Solvency ratio in Scenario
LAC DT Factor %	-/- 11%

In this scenario, own funds are not affected as no of loss or change in value of assets or liabilities is assumed. Only the SCR increase as a result of the reduced recoverability of taxes in case a large loss were to occur. As a result, the Solvency Ratio declines by 11%.

D. Valuation for Solvency Purposes

This section outlines the valuation of the assets and technical provisions of Aegon Schade for Solvency II purposes. Under Solvency II, the assets are valued at market value and are typically observable from market data directly. Where a market observable price is not available, the market value of the asset is ascertained using methodology aligned to the Solvency II rules.

The valuation of assets and technical provisions for Solvency II purposes are derived predominantly from the same data and models as used in preparation of the Statutory Accounts, and a key internal process control is to reconcile from the audited Statutory Accounts to the valuation of assets and technical provisions for Solvency II reporting. In line with Aegon Group, in this section the International Financial Reporting Standards ("IFRS") balance sheet is reconciled to the Solvency II balance sheet.

The overall balance sheet under Solvency II and under IFRS reporting is shown below.

Table: Balance Sheet (in € million)

Balance Sheet	Section	Solvency II value	Statutory accounts value
Assets			
Investments (other than assets held for index-linked and unit-linked contracts)	D.1.2.1.	810	803
Equities		7	7
Equities – unlisted		7	7
Bonds	D.1.2.2.	550	543
Government Bonds		265	261
Corporate Bonds		228	226
Collateralized securities		57	57
Collective Investments Undertakings	D.1.2.3.	251	251
Derivatives		2	2
Loans and mortgages	D.1.2.4.	607	558
Loans and mortgages to individuals		454	407
Other loans and mortgages		153	151
Reinsurance recoverables from:		19	12
Non-life and health similar to non-life		15	8
Life and health similar to life, excluding health and index-linked and unit-linked		3	3
Deposits to cedants		2	2
Receivables (trade, not insurance)		9	9
Cash and cash equivalents		3	3
Any other assets, not elsewhere shown		0	9
Total assets		**1,450**	**1,396**

Balance Sheet	Section	Solvency II value	Statutory accounts value
Liabilities			
Technical provisions - non-life	D.2.	224	201
Technical provisions - non-life (excluding health)	D.2.	158	151
Technical provisions calculated as a whole		0	
Best estimate		147	
Risk margin		11	
Technical provisions - health (similar to non-life)	D.2.	66	50
Technical provisions calculated as a whole		0	
Best estimate		61	
Risk margin		5	
Technical provisions - life (excluding index-linked and unit-linked)	D.2.	691	835
Technical provisions - health (similar to life)	D.2.	691	835
Best estimate		653	
Risk margin		38	
Deferred tax liabilities	D3.1.1	57	13
Derivatives	D.3.1.2	23	22
Insurance & intermediaries payables		4	4
Payables (trade, not insurance)	D.3.1.3	35	35
Any other liabilities, not elsewhere shown		0	2
Total liabilities		**1,034**	**1,112**
Excess of assets over liabilities		**415**	**285**

The difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities is explained in paragraph E.1.3.

D.1. Assets

The overview in table below shows the value of assets by material asset class under Solvency II and IFRS statutory reporting.

Balance Sheet	Section	Solvency II value	Statutory accounts value	Difference
Assets				
Investments (other than assets held for index-linked and unit-linked contracts)	D.1.2.1	810	803	7
Bonds	D.1.2.2	550	543	7
Government Bonds		265	261	4
Corporate Bonds		228	226	2
Collateralized securities		57	57	0
Collective Investments Undertakings	D.1.2.3	251	251	0
Loans and mortgages	D.1.2.4	607	558	49
Loans and mortgages to individuals		454	407	47
Other loans and mortgages		153	151	2

D.1.1. Solvency II valuation

In this paragraph the valuation under Solvency II is described per main asset class. Where the valuation method or classification differs between IFRS and Solvency II, a qualitative and quantitative explanation is provided by asset category.

In accordance with Solvency II regulations, figures are based on fair value. To ensure consistency with the annual report of Aegon Schade, fair value under IFRS and market value under Solvency II is the same.

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). A fair value measurement assumes that the transaction to sell the asset takes place:

a. in the principal market for the asset; or
b. in the absence of a principal market, in the most advantageous market for the asset.

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

Level I: quoted prices (unadjusted) in active markets for identical assets that Aegon Schade can access at the measurement date;

Level II: inputs other than quoted prices included within Level I that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets) using valuation techniques for which all significant inputs are based on observable market data; and

Level III: inputs for the asset 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 generally inversely correlates with the level of observable valuation inputs. Aegon Schade aims to maximize the use of observable inputs and to minimize 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 has to be 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 asset categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The evaluation 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 are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets; the derivation of fair value is more judgmental. An instrument is classified in its entirety and valued using significant unobservable inputs (Level III) if a significant portion 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 a transaction at arm's length 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 Schade, 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.

D.1.2. Differences between Solvency II and IFRS valuation per asset class

In this section of the report the valuation bases under Solvency II and IFRS of the main asset classes and the reconciliation are discussed. The value of the assets is disclosed in the balance sheet at the beginning of Chapter D.

D.1.2.1. Investments (other than assets held for index-linked and unit-linked funds)

If financial assets are valued at amortized cost under IFRS, insurers will need to convert them to fair value for Solvency II.
This is particularly required for financial instruments that are classified as Held-to-maturity or Loans and receivables under IAS39.
The fair value measurement is applicable.

The Solvency II balance sheet contains an investment position of € 810 million. The IFRS balance sheet contains an investment position of € 803 million.

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

Financial assets, excluding derivatives
Financial assets, excluding derivatives are recognized on the trade date when Aegon Schade 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: 1) financial assets held for trading; 2) financial assets managed on a fair value basis in accordance with the investment strategy of Aegon Schade; and 3) financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Schade 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 Schade 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.

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.

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

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

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

D.1.2.2. Bonds

Solvency II and the IFRS balance sheet both measure bonds at fair value. The Solvency II balance sheet contains a bonds position of € 550 million. The IFRS balance sheet contains a bonds position of € 543 million. The Solvency II balance sheet is € 7 million higher for Bonds. The valuation is the same, the only difference is a reclassification of accrued interest from Any other assets.

D.1.2.3. Investment funds

Solvency II and the IFRS balance sheet both measure Investment funds at fair value.

Both the Solvency II and IFRS balance sheet contains an investment funds position of € 251 million.

Investment funds managed by Aegon Schade in which Aegon Schade holds an interest are consolidated in the financial statements if Aegon Schade 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 Schade in the fund are considered.

Aegon Schade concluded, for all investment funds, that it does not exercise control, as Aegon Schade has no power over the asset manager (key decision maker). The line Collective Investment Undertaking mainly relates to the Aegon money market fund.

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.

D.1.2.4. Loans and mortgages

Loans and mortgages are measured at amortized cost in the financial statements. Under Solvency II fair value measurement is required.

Mortgages
The valuation methodology for mortgages follows the following steps:
1. Projection of future cash flows of mortgage loans;
2. Determination of the interest rate curve to use for discounting; and
3. Net present value calculation.

In this approach, cash flows for each mortgage loan part in Aegon's portfolio are projected separately, based on product characteristics, mortgage rates and interest reset dates. Aegon's methodology recognizes four mortgage cash flow profile types, being: Interest only, Annuity, Linear and Savings mortgages.

Cash flows are adjusted for expected early repayments (also known as prepayments). The rate of early repayments is based on a historical analysis and assessment of market circumstances.

The interest rate curve used for discounting is determined by applying a spread over the risk free yield curve, which is constant over the maturity of the term structure. The spread for each mortgage loan part is dependent on the Loan to Value and remaining time until the next interest reset date.

The spread is derived from the most recent, most competitive consumer mortgage rates observed in the market, after deduction of a 'Margin Earned' which serves to cover the expense of originating and servicing the mortgage portfolio. The consumer rate minus the Margin Earned reflects the yield that an external investor would be able to obtain when investing in mortgage loans.

This method of obtaining the spread is also known as a top-down approach. The prevailing consumer rate is determined as the single average of the mortgage rates offered by the top three providers in the market (not including Aegon affiliated entities), for a particular Loan to Value and duration.

For the purpose of valuation, it is assumed that each mortgage will be redeemed at the next interest reset date of that mortgage. This is the date at which the mortgage provider can reset the interest rate and the mortgagee can terminate the contract without a penalty.

The assumption that all mortgages will be terminated at the first interest reset date will, generally speaking, lead to some degree of underestimation of the value of a portfolio. As interest rates can be set or reset to a profitable level at the interest reset date, profits occurring after this date are not included in the valuation. This assumption is made nonetheless, as mortgagees do not have a contractual obligation to continue their mortgage after the interest reset date and can exit without a penalty.

The estimated rate of repayment is compared annually against actual repayment rates for verification, and the prepayment rate in the valuation is updated accordingly.

Prevailing consumer rates are collected by an external party on a weekly basis. The mortgage valuation spreads are updated monthly on the basis of the latest consumer rates.

The Margin Earned, which is deducted from the consumer rate to derive the discount rate, is benchmarked against Mortgage portfolio transactions conducted by Aegon Asset Management as well as other transactions. The margin is verified annually on the basis of the most recently completed transactions.

The valuation of the mortgage portfolio is based on a number of factors that are not known precisely or may change over time, creating a degree of uncertainty. Main uncertainties relate to the rate of early repayments, and the dependence of the valuation on mortgage rates offered by other providers in the market.

Loans

Fair value measurement of loans on policies, IC loans and other loans on the Solvency II balance sheet is based on amortized cost measurement on the IFRS balance sheet. 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.

Reconciliation difference IFRS to Solvency II: Adjustments of Loans and Mortgages

The Solvency II balance sheet is € 47 million higher due to the revaluation of Loans and Mortgages to fair value and € 2 million higher due to reclassification of accrued interest from Any other assets.

D.2. Technical provisions

D.2.1. Technical provisions by each material line of business

The table below shows the Solvency II and IFRS (statutory) liabilities at year-end 2016.

	Section	Solvency II value	Statutory accounts value
Technical provisions - non-life	D.2.	224	201
Technical provisions - non-life (excluding health)	D.2.	158	151
Technical provisions calculated as a whole		0	
Best estimate		147	
Risk margin		11	
Technical provisions - health (similar to non-life)	D.2.	66	50
Technical provisions calculated as a whole		0	
Best estimate		61	
Risk margin		5	
Technical provisions - life (excluding index-linked and unit-linked)	D.2.	691	835
Technical provisions - health (similar to life)		691	
Technical provisions calculated as a whole		0	
Best estimate		653	
Risk margin		38	

Insurance contracts are contracts under which Aegon Schade 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.

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.

Aegon Schade offers accident and health insurance (sick leave insurance) and general insurance. General insurance consists of a wide range of non-life insurance products, including liability, household, automotive and fire protection. Within the Health SLT branches, Aegon Schade offers individual disability insurance ("AOV") and group disability insurance ("WIA"). Some AOV policies have a premium refund clause or supplementary coverage for Accident and Travel insurance.

General description of the reserving methodology

Non-life
The technical provision for Non-life and Sick leave insurance is updated quarterly by calculating a best estimate claims reserve, premium reserve and risk margin. The calculation of the claims provision and the premium provision is described in the next sections.

Claims provision

The best estimate claims provision is calculated with standard triangle reserving techniques. Figures concerning paid and incurred claims, costs and salvage and subrogation are updated for each homogenous risk group ("HRG"). For both the paid and incurred amounts, including costs and accounting for salvage and subrogation, two related methods are applied:

1. a development factor method, consisting of the linked ratio method and a method to calculate an appropriate tail factor; and
2. the Bornhuetter-Ferguson method, which takes into account an initial expectation of the ultimate claim amount and the outcomes of the development factor method.

In general, claims data over the past five years are used to set development factors for determining the best estimate claims reserve. In order to determine a claims reserve for a HRG, the results of these methods are compared with each other. For each accident year, the result which is considered most appropriate is chosen. Based on the selected ultimate claim amounts and accompanying payment patterns the best estimate claims cash flows are estimated.

Premium provision

The best estimate premium reserve is determined based on the simulated cash flows stemming from a distribution for attritional, large and catastrophe claims. The parameterizations of the attritional and large loss distributions are based on historical claim amounts. Distributions for catastrophic claims concerning storm risk are simulated by using externally provided data.

AOV

The best estimate claims and premium provision for AOV is based on a Markov chain projection of the expected premiums, claims, expenses and commission. The model uses transition probabilities (inception, recovery, mortality and lapse) that are based on historically observed statistics in the Aegon portfolio.

The premium refund provision is calculated in a separate projection model. This model projects the expected value of invested premiums to the end date of the contract. This value is used to derive the expected premium refund. The best estimate provision equals the present value of the expected refund, calculated with best estimate mortality and disability assumptions.

For part of the AOV portfolio an IBNR is calculated to account for late reported claims in the two most recent accident years. The IBNR is estimated with a loss ratio method based on historical loss ratios.

WIA

The best estimate claims and premium provision for WIA is based on a Markov chain projection of the expected premiums, claims, expenses and commission. The transition probabilities are derived from industry wide transition parameters provided by the Dutch Association of Insurers. These parameters constitute a system of probabilities, which specifies inception and transition rates between various disability states.

The total best estimate liabilities ("BEL") for WIA comprises of the present value of cash flows (the sum of claims, expenses, and commissions minus premiums) concerning both the disabled and active policyholders. The claims provision is based on the BEL from disabled policyholders, whereas the premium provision is based on the BEL from the active policyholders.

Since there is substantial period of time (often two years) between the moments at which a policyholder becomes disabled and when this policyholder receives its first benefit under the WIA coverage, IBNR is incorporated in the BEL for disabled policyholders. For the major HRGs, WGA Aanvulling, WGA Excedent and WGA ERD, the IBNR is calculated with triangle techniques based on the incurred claims per accident quarter. The incurred claims are equal to the paid claims plus the outstanding claims reserves. The following three methods are applied:

1. a development factor method, consisting of the linked ratio method and an appropriate tail factor (used for the eight oldest accident quarters).
2. an initial expectation method, in which the ultimate claim amount is based on an expected loss ratio (used for the 10 most recent accident quarters for which due to the waiting period of two years, limited information is available); and
3. the Bornhuetter-Ferguson method (used for all intermediate quarters).

Apart from claims data that are considered to be outliers such as years with insufficient volume, claims data over all available years are used to set development factors for determining the best estimate claims reserve. For WIA Light the IBNR based on nationally observed statistics. For WIA Upgrade, WIA Bodem and WIA 35-MIN the IBNR is calculated with an expected loss ratio.

Underlying assumptions

Non-life

Claims provision

The key assumption of triangle techniques that are used for the claims provision is a stable ratio between the development-columns of the paid and incurred triangles.

Premium provision

The methodology used for the premium provisions assumes that the expected future claims can be estimated by separate probability distributions for attritional, large and catastrophe losses. This is a common approach for the modelling of future claims.

AOV

Demographic assumptions used in the projection models are annually updated based on observed statistics in the Aegon portfolio. Expense assumptions are annually updated based on budget figures. In case the difference between actual expenses and the budget exceeds a predefined threshold, the actual expenses will be used in the projection models per year end.

WIA

Non-economic assumptions

Aegon assumes that transition rates between different disability states in its WIA portfolio do not significantly differ from the nation-wide transition rates that were estimated by the Dutch Association of Insurers. Assumptions regarding the residual earnings capacity in case of a change in disability state are set in line with market practice.

Economic assumptions

Interest rates and economic assumptions regarding future wage inflation are updated on a quarterly basis to reflect actual economic developments.

Contract boundary

Non-life

For all Non-life business the legal contract duration is 1 year. As the policies are renewed yearly, and policy terms and conditions can be changed at renewal date, the renewal date is taken as contract boundary. This means that the policies are projected until the contract renewal date and on average this is a period of six months. The assumptions made are that all policies are renewed yearly and the renewal dates are evenly distributed over the year. Because the model used to calculate the best estimate liabilities is a portfolio model, specific characteristics of individual policies are not taken into account.

For Sick leave insurance a contract boundary of 3 years is used. An even distribution of the end date over the years is assumed. The premiums in the projection are indexed with 2% per year.

AOV

The contract boundary that is used for the best estimate projection of AOV insurance is three years. The contract boundary is based on internal research and reflects the term that Aegon believes is needed to bring premium levels in line with the underlying risks in case of a significant change of the risk profile in the portfolio.

WIA

All WIA contracts have a fixed contract term between one to three years. For each contract, the contract end date is used as contract boundary in the projection model.

Risk Margin

The calculation of the risk margin takes place per product group. Non-life and Health non-SLT are combined in one product group, the other product groups are AOV and WIA. A small proportion of the risk margin is scaled for non modelled reserves. Scaling is applied on the final outcomes.

Non-life

The risk margin calculation is based on a cost-of-capital method applied to a projection of the standard formula SCRs associated with Non-life and Health non-SLT. The SCRs which are relevant for calculating the risk margin are premium and reserve risk, catastrophe risk, counterparty default risk (through reinsurance contracts), lapse risk and operational risk. Diversification between the different risks is taken into account by using the standard formula diversification on the total Aegon Schade level, i.e. including the diversification with Health SLT. Aegon has adopted the best estimate reserve as risk driver for the runoff of the future SCRs.

The risk margin is calculated for each Line of Business separately and then aggregated. However, some risks are calculated on a total level. These risks are divided between the Lines of Business ("LoBs") in the following way:

- Counterparty Default Risk: the CDR is allocated to the LoBs according to the catastrophe risk per LoB. Only LoBs where reinsurance is applicable get part of the CDR.
- Operational risk: for Operational Risk the net best estimate outstanding claims are used to divide the risk over the LoBs.

The table below shows the risk margin for each line of business.

In € million	Risk margin
P&C incl. Health non-SLT	17
Health SLT	38
Total	55

D. 2.2. Uncertainty associated with the value of technical provisions

The valuation of technical provisions is based on model settings and parameter estimates which reflect unknown future developments and therefore gives rise to uncertainty. In addition, scaling has been applied to some smaller portfolio segments for which accurate portfolio data is incomplete or unavailable at all.

Main uncertainties affecting technical provisions relate to disability and recovery rates, cancellation rates, expense levels and scaling. The impact of these uncertainties has been assessed by varying the impacted parameters within a reasonable range of possible outcomes. These sensitivity analyses showed that the aggregate impact of the various uncertainties identified has a minor impact on overall technical provisions and capital ratio. Refer to chapter C for sensitivity results.

D.2.3. Differences between Solvency II valuation and IFRS valuation of Technical Provisions analysed by each material line of business

Non Life

There are two main differences in the valuation methodology between Solvency II and the statutory accounts:

- In the statutory accounts the premium reserve equals the unearned premium reserve. This amount is entirely based on book value. The Solvency II premium reserve is based on all future expected cash flows (premiums, claims and expenses) within the contract boundary.
- In Solvency II a risk margin is held on top of the best estimate reserves. This risk margin is calculated using a cost of capital method. In the statutory accounts the risk margin is not applicable but instead a prudency margin is added to the technical provisions. The prudency margin is calculated using a bootstrap method and reflects the uncertainty in the claims provisions.

AOV

There are three main differences in methodology between Solvency II and the statutory accounts:

- In the statutory accounts the total premium reserve consists of the unearned premium reserve plus the present value of future premiums and claims based on tariff assumptions. The Solvency II premium provision is a best estimate projection of all claims, expenses and premiums for active members within the contract boundary.
- In the statutory accounts the claims reserve for part of the AOV portfolio (AOV Individueel) is calculated policy by policy using present value factors that are based on prudent assumptions and a fixed discount rate. In Solvency II the claims reserve for AOV Individueel is calculated based on best estimate assumptions. For the remaining part of the AOV portfolio (AOV Collectief) the statutory accounts reserves are based on best estimate assumptions, which means for this part of the portfolio there is no difference between the valuation in both reporting frameworks.

- In Solvency II a risk margin is held on top of the best estimate reserves. This risk margin is calculated using a cost of capital method. In the statutory accounts the risk margin is not applicable. Instead, a prudency margin is included in the claims reserves (see previous bullet).

WIA

There are three main differences in methodology between Solvency II and the statutory accounts:

- In the statutory accounts for the premium reserve only the unearned premium reserve is used. In Solvency II also expected profit in future premiums is taken into account.
- In Solvency II the IBNR reserve is calculated as a best estimate of the ultimate claims based on developments in the own portfolio. In the statutory accounts the IBNR reserve is set on a more prudent basis. There, the ultimate claims are based on a 70% percentile estimation using a Mack approach. In addition, the estimates for WGA Aanvulling are partly based on nationwide inception rates, which are generally higher than the observed inception rates in the own portfolio. Furthermore, an additional prudency margin for data uncertainties is taken into account.
- In Solvency II a risk margin is held on top of the best estimate claims reserve. This risk margin is calculated using a cost of capital method. In the statutory accounts the risk margin is not applicable.

Difference between IFRS and Solvency II measurement

In the technical provisions for non-life and health non-SLT there is a revaluation of € 23 million and in the technical provisions for health SLT there is a revaluation of -/- € 144 million. These differences in technical provisions are the effect of moving from prudent IFRS provisions to market value technical provisions. In this effect, the change from unearned premium reserve to best estimate cash in and outflows within the contract boundary is included in the premium reserve. Furthermore, all prudence from the claims provision is excluded. Also, the impact of discounting taken into account. Finally, these adjustments are partly offset with the inclusion of the risk margin. These revaluations also have impact on the deferred tax liability.

D. 2.4. Matching adjustment

The Matching Adjustment is a mechanism that (partially) mitigates the impact of spread movements on the net balance sheet numbers, where assets and liabilities are cash flow matched. The discussion below is a summary of the Matching Adjustment position paper.

Aegon Schade decided not to apply the matching adjustment.

D.2.5. Volatility adjustment

The volatility adjustment ("VA") is applied by Aegon Schade. The VA to the discount rates for calculating technical provisions is aiming to avoid pro-cyclical investment behavior of insurers when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The VA is an integral part of Solvency II and Aegon considers the VA sensitivity an inappropriate measure for market movements. The impact of the application of the VA on the own funds and SCR is shown below:

		SII Standard Formula	
Solvency II Capital – Q4 2016	**OF**	**SCR**	**Ratio**
Amount with VA	395	249	159%
Impact VA	-/- 6	0	-/- 3%
Amount without VA	389	249	156%

D.2.6. Transitional measures

Insurance undertakings may, subject to prior approval by the DNB, apply a transitional measure to the relevant risk free interest rate term structure to calculate the provision or to apply a temporary deduction of the technical provisions (articles 308c and 308d of Directive 2009/138/EC). Aegon Schade decided not to apply these transitional measures.

D.2.7. Recoverables from reinsurance contracts and special purpose vehicles

The outstanding recoverables from reinsurers at the end of 2016 are as follows:

Line of business (amounts in € million)	Outstanding recoverables Beste Estimate Premium Provision	Outstanding recoverables Beste Estimate Claim Provision
Motor vehicle liability insurance	0.6	3.1
Other motor insurance	0.6	3.5
Fire and other damage to property insurance	3.6	3.5
General liability insurance	0.1	0.2
Health similar to Life	0	3.4
Total	**4.9**	**13.7**

The recoverables from reinsurers are calculated by applying the ratio between outstanding recoverables and outstanding claims reserve to the best estimate claims reserve for outstanding claims. For future claims, the recoverables from reinsurers are calculated per claim using the reinsurance program. Here a default rate is applied to take into account the possibility that the reinsurer will not pay.

For Health SLT the reinsurance recoverables under Solvency II were set equal to the IFRS amount. Given the low materiality of this recoverable, there is no separate model to determine the solvency II amounts.

D.2.8. Material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period

AOV
The main driver for the increase of the modelled part of the Solvency II technical provision with € 80 million is the model change (impact -/- € 52 million). Modelling the Collective AOV portfolio with the same cash flow projection model as for the Individual AOV portfolio, resulting in an increase of the modelled part.

WIA
The main driver for the decrease of the modelled part of the Solvency II technical provision with € 56 million is the model change (impact -/- € 69 million). Changes were made in the cash flow projection model, a new IBNR methodology was implemented and a data enrichment has taken place.

Non modelled Health SLT
The non-modelled part of the Best Estimate Liabilities of the AOV and WIA business decreased with € 60 million. This decrease in non-modelled business is mainly caused by the modelling of the Collective AOV portfolio with the same cash flow projection model as for the Individual AOV portfolio, resulting in an increase of the modelled part

D.3. Other liabilities

The break-out in the table below shows the value of the other liabilities by material liability class under Solvency II and IFRS.

Table: Liabilities (in € million)

Balance Sheet	Section	Solvency II value	Statutory accounts value	Difference
Other Liabilities				
Deferred tax liabilities	**D.3.1.1.**	57	13	44
Derivatives	**D.3.1.2.**	23	22	2
Payables (trade, not insurance)	**D.3.1.3.**	35	35	0

D.3.1. Solvency II valuation for each material class of other liabilities

In this paragraph the valuation under Solvency II is described per material other liability class. Where the valuation method or classification differs between IFRS and Solvency II, a qualitative and quantitative explanation is provided per other liability category.

In accordance with Solvency II regulation, the amounts are based on fair value. To assure consistency with annual reporting, fair value under IFRS and market value under Solvency II is the same.

Fair value is defined as the amount that would be 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).

D.3.1.1 Deferred tax liabilities

Solvency II methodology for the calculation of deferred taxes follows the provisions of IAS 12 in the financial statements. 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. A tax asset is recognized for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will likely be available against which the tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Periodic management 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 can be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectation of Aegon Schade concerning the manner of recovery or settlement

Reconciliation difference IFRS to SII: Reclassification Adjustments

IFRS to Solvency II reconciliation of deferred tax items should comprise of DTA and DTL adjustments reflecting the tax impact of all the individual revaluations processed for all components of Balance Sheet. The Solvency II balance sheet contains a Deferred Tax Liability position (€ 57 million). The IFRS balance sheet contains a Deferred Tax Liability position of € 13 million

Reconciliation difference IFRS to SII: Revaluation Adjustments

The revaluation of the DTL (€ 44 million) from IFRS to Solvency II relates to the tax on the 'IFRS – Solvency II revaluation items':

- Tax on the revaluation of Loans and mortgages (€ 12 million);
- Tax on the revaluation of the Reinsurance recoverables (€ 2 million); and
- Tax on the revaluation of the Technical provisions (€ 30 million).

D.3.1.2. Derivatives

Solvency II and the IFRS balance sheet both measure derivatives at fair value.

The Solvency II balance sheet contains a derivatives position of € 23 million. The IFRS balance sheet contains a derivatives position of € 22 million. The Solvency II balance sheet is € 2 million higher due to the reclassification of accrued interest from Any other liabilities.

D.3.1.3. Payables (trade, not insurance)

The fair value of liabilities 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.

The payables (trade, not insurance) position on the Solvency II balance sheet is € 35 million and it is equal to the amount on the IFRS balance sheet.

D.4. Alternative methods of valuation

Alternative methods of valuation are used for assets and liabilities for which no quoted markets prices exist in active markets for the same or similar assets and liabilities. This concerns the following assets and liabilities; deferred tax liabilities, Loans and mortgages and the technical provision.

For these assets and liabilities we refer to sections D.1, D.2 and D.3, for information regarding these alternative methods of valuation.

D.5. Any other information

All relevant information is covered in the previous sections.

E. Capital Management

E.1 Own funds

E.1.1. Objective, policies and processes for managing own funds

Objective and policies
The capital and risk strategy for Aegon Schade is aligned with the Aegon Group risk strategy. The principles laid out in the Group risk strategy form the foundation for limit and appetite setting in the Aegon Nederland capital management policy.

Under the Aegon Nederland capital management policy, a level of additional capital is targeted such that the company can withstand plausible risk events and still meet its regulatory capital requirement. Where capital coverage is in excess of the upper end of this range, the expectation is that this provides opportunity for accelerated investment in its growth strategy or payment of a dividend to the shareholder. Where coverage is below the lower-end of this range it would become necessary to develop plans to strengthen the capital position back to within the target range over a limited period of time.

The policy contains statements on risk appetite and limits that are in place for each type of risk, the desired and minimum level of own funds, as well as the escalation procedures (including governance process) in case limits are breached. Projections of own funds and required capital are made as part of the Budget/MTP process and ORSA process. These projections consider regular as well as extreme scenarios, in order to ascertain that Aegon Schade is able to fulfil its obligations to policyholders in these scenarios.

Key figures
Eligible own funds of Aegon Schade equaled 159% of the SCR at year end 2016. This ratio being greater than 100%, evidences Aegon Schade's ability to meet policyholder obligations when they fall due, even under stressed conditions. The Solvency II SCR target range for Aegon Schade is set at 130% - 150% by the company's Executive Board. The current ratio is in the opportunity zone of our capital management policy.

E.1.2. Own funds – Quality & Amounts

Own funds are classified into different tiers, indicating their quality and availability to fully absorb losses. Total own funds of Aegon Schade only includes Unrestricted Tier 1 capital. Under the Solvency II regime, own funds are split into the tiers as shown in the table below

Tier 1	Tier 2	Tier 3
Unrestricted Tier 1 • Equity (Share capital and share premium) • Reconciliation Reserve **Restricted Tier 1** • Perpetual subordinated capital instruments with loss absorption	• Dated or perpetual • Subordinated capital instruments - With an original maturity of at least 10 years - Limited loss absorption - With suspension of payments and deferral of interest	• Dated or perpetual • Subordinated capital instruments - With an original maturity of at least 5 years - Limited loss absorption - With suspension of payments and deferral of interest • Net deferred tax assets

Element of own funds	Description
Tier 1 capital: consists of ordinary shares, share premium and reconciliation reserve, which are fully available without restrictions. There are no obligations to redeem these own fund items at any time, hence no maturity date applies	The Reconciliation Reserve is determined as the excess of assets over liabilities minus the ordinary share capital and share premium account related to ordinary share capital. As mentioned in in the table below the Reconciliation Reserve amounts to € 395 million and as such, is the dominant component of the own funds. It originates mostly from earnings accumulated in previous years which have not been distributed to shareholders. The unrestricted Tier 1 capital contains a deduction for a foreseeable dividend payment from Aegon Schade to Aegon Nederland of € 20 million.

Own funds of Aegon Schade consist solely of Tier 1 unrestricted capital. Tier 1 capital consists of the total of assets minus liabilities, valued according to Solvency II valuation principles, and amounts to € 395 million.

Expected Profits in Future Premiums in the amount of €28 million contribute to own funds through a reduction of Technical Provisions by the same amount.

Deferred Tax Assets (DTA)
The table above shows there is no net DTA that form part of own funds.

E.1.3. Detailed breakdown eligible amount of own funds to cover the Solvency Capital Requirement and Minimum Capital Required

All Tier 1 capital in the amount of € 395 million, is eligible to cover the SCR as well as MCR.

E.1.4. Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

Eligible own funds to meet SCR and MCR of Aegon Schade amounts to € 395 million. This is shown in below mentioned table

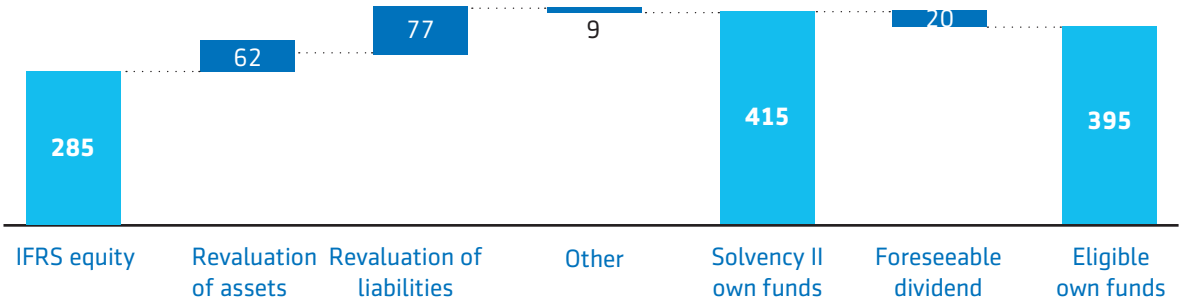
Eligible own funds to meet SCR and MCR (31 Dec 2016)

	Total Tier	U-Tier 1	Tier 2	Tier 3
Ordinary share capital- gross of own share	31	31		
Share premium account related to ordinary share capital	117	117		
Reconciliation reserve	248	248		
Subordinated liabilities	0		0	
Deferred tax assets	0			0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0			
Eligible own funds to meet SCR and MCR	**395**	**395**	**0**	**0**

There is no capital loss or capital overflow after applying capital restrictions as all capital is unrestricted Tier 1 for both MCR and SCR coverage.

E.1.3. Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

Below mentioned graph shows the reconciliation between statutory IFRS equity and Solvency II own funds.



Main reasons for the differences in valuation are as follows:

1. Revaluation of assets in the amount of € 62 million mainly reflects mortgage loans held for general account which are valued at amortized cost under IFRS, and at market value under Solvency II; and
2. Revaluation of liabilities in the amount of € 77 million and relates to prudent assumptions used under IFRS and at market value under Solvency II.

A more extensive analysis on the Solvency II to IFRS reconciliation is given in Chapter D.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

With the introduction of the Solvency II regulatory framework on 1 January 2016, the capital requirement for EU insurance entities is based on Solvency II.

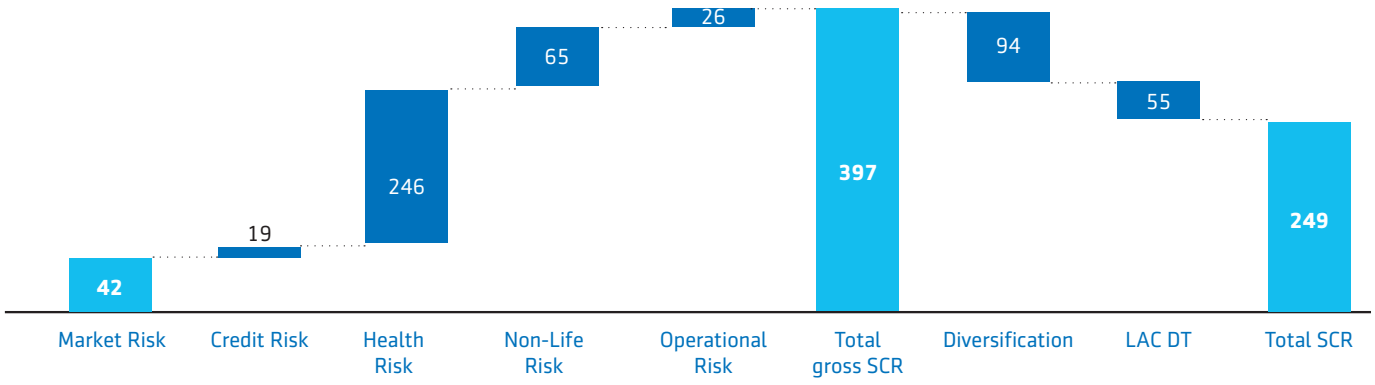
E.2.1. Solvency Capital Requirement

Aegon Schade reports its SCR in line with the standard formula specifications.

Composition of the SCR at year end 2016

The graph below provides an overview of the SCR by risk category. Each risk category is split into risk types. The amounts as provided in the table are the sum of the risk types within the risk category, they therefore do not include diversification within the risk category. The line with diversification contains diversification amounts within risk categories as well as diversification amounts between the risk categories.

Table: SCR by Type of Risk at 31 December 2016



No simplified calculations or undertaking specific parameters have been used for the SCR components. Refer to chapter C on risk profile for a further discussion on the SCR amounts by risk type.

The LAC DT factor is subject of discussion with DNB, following guidance issued by DNB earlier in 2017 and consequently may be subject to change, as per Q2 2017, as discussed in the first section of Chapter C.

E.2.2. Minimum Capital Requirement

The Minimum Capital Requirement has been determined as the sum of the following components, with a minimum of 25% and a maximum of 45% of the Solvency Capital Requirement, as stipulated in the Commission Delegated Regulation (EU) 2015/35 (the Delegated Acts):

$MCR = MCR^{Non\text{-}life} + MCR^{Life}$

Where:

MCRNon-life = $\Sigma_s (\alpha_s * TP_s + \beta_s * P_s)$

Where:

S = All segments as included in Annex XIX of the Delegated Regulation
TP = Technical Provisions, excluding the risk margin, net of reinsurance with a floor equal to zero
P = Written Premium, net of reinsurance, with a floor equal to zero
α and β = factors as included in Annex XIX of the Delegated Regulation

And MCRLife is calculated as:
2.1% of the Technical Provisions for all Health SLT products, excluding the risk margin, net of reinsurance with a floor equal to zero.

An overview of the amounts is shown below (in € million):

MCR calculation Non-life	Non-life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Income protection insurance and proportional reinsurance	61	55
Motor vehicle liability insurance and proportional reinsurance	68	66
Other motor insurance and proportional reinsurance	6	48
Marine, aviation and transport insurance and proportional reinsurance	0	13
Fire and other damage to property insurance and proportional reinsurance	20	112
General liability insurance and proportional reinsurance	29	23
Legal expenses insurance and proportional reinsurance	8	17
Miscellaneous financial loss insurance and proportional reinsurance	1	3

The Technical Provisions for all Health SLT products, excluding the risk margin, net of reinsurance amounts to € 649 million.

E.2.3. Material changes to the SCR and MCR

Following the sale of the commercial lines, co-assurance and authorized agents portfolio, the SCR for Non-life Underwriting Risk as well as the aggregate SCR decreased.

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Aegon Schade does not make use of the duration-based equity risk sub-module set out in article 304 of Directive 2009/138/EC for the calculation of the standard formula SCR.

E.4. Differences between internal model and standard formula

Aegon Schade does not use a (Partial) Internal Model to calculate its Solvency Capital Requirement.

Glossary

Collateral is an asset pledged by a borrower to secure a loan and is subject to seizure in the case of default.
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.
Diversification is the general concept of reducing the total risk of a portfolio of assets and/or liabilities by spreading it across a mix of different risk exposures. Risk reduction occurs due to the less than perfect correlation among the individual risk exposures in the portfolio, meaning risks will not materialize all at the same time.
Financial risks are risks of a possible future change in one or more of the following variables: a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.
Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer.
Interest rate risk is a market risk, namely the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.
Loss absorbing capacity of deferred taxes is a loss compensating effect of taxes taken into account in the solvency capital requirement.
Minimum capital requirement is the absolute minimum level of capital an insurance company must hold in excess of its Technical Provisions under Solvency II.
Operating expenses are all expenses associated with selling and administrative activities (excluding commissions) after reallocation of claim handling expenses to benefits paid.
Partial Internal Model is a combination of a Standard Formula and Internal Model, used to calculate the Solvency II capital requirement.
Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.
Solvency II is the fundamental reform of European insurance legislation.
Solvency capital requirement is the level of capital an insurance company must hold in excess of its Technical Provisions under Solvency II.
Spread is the difference between the current bid and the current ask or offered price of a given security.
Standard Formula is a risk-based approach to the calculation of an insurer's solvency capital requirement, prescribed by the regulator.
Stochastic modeling is a statistical process that uses probability and random variables to predict a range of probable investment performances.
Transitional measures allow EEA entities to gradually move to a full implementation of Solvency II over a period of time.
Volatility adjustment is a volatility adjustment to the discount rates for calculating technical provisions aims at avoiding pro-cyclical investment behavior of insurers when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The adjustment has the effect of stabilizing the capital resources of insurers and will be calculated by EIOPA.