

Optas Pensioenen N.V.

Solvency and Financial
Condition Report 2016

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Executive summary

Scope of this report

This Solvency and Financial Condition Report (“SFCR”) of Optas Pensioenen N.V. (“Optas”) 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 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 Optas’ stakeholders about Optas’:

- **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, Optas’ 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

Optas at a glance

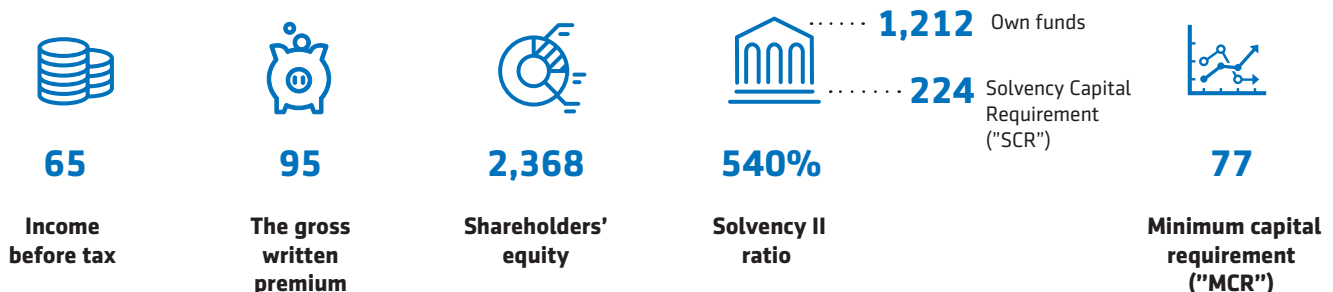
Aegon N.V. is the ultimate parent company of Optas.

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

Optas's income before tax for 2016 amounts € 65 million (2015: € 106 million). The gross written premium amounts to € 95 million for the year ended 2016. Shareholders' equity at 31 December 2016 amounts to € 2,368 million compared to € 2,346 million at year-end 2015. The Solvency II ratio is calculated at 540% as at 31 December 2016, which is determined based on own funds of €1,212 million and a partial internal model SCR of € 224 million and the MCR amounts € 77 million.

2016 numbers (in € million)



The current Solvency II position, being larger than 100%, evidences Aegon's ability to meet policyholder obligations when they fall due, even under stressed conditions. The Solvency II SCR target range for Optas is set at 130% - 150% by the company's Executive Board. The capitalization of Optas is above this target range as extracting this surplus would trigger the removal of the tax exempt status of Optas.

Mission and strategy

Aegon Nederland N.V. ("Aegon Nederland"), the holding company of the Dutch Aegon organization, which includes Optas, 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

Optas is well aware of and well prepared to address the challenges facing life insurance companies in the Dutch marketplace. Declining volumes in individual (unit linked) insurance and off balance sheet pension solutions like the "Algemeen Pensioen Fonds" ("APF") and "Premie Pensioen Instelling" ("PPI") causing also a decline in premium income in the group business. Furthermore the lower interest rates cause a shift from Defined Benefit ("DB") to Defined Contribution ("DC") and declining investment margins. Finally longevity is increasing, resulting in price increases for products that inherently carry these risks. Aegon has a clear strategy to address these issues:

- Execution of our cost reduction initiatives in Optas and increase variability of expenses;
- Split between current units linked service book and active sales in individual life;
- Establish new business models and products in the group life business (PPI, APF, variable annuities, banking, services); and
- Manage carefully the risks in the declining benefit group life book.

Management has developed cost reduction initiatives which will safeguard to maintain Aegon's contribution margin at an acceptable level. Furthermore Optas is enabling corporate customers having Defined Contribution contracts in Aegon Levensverzekering N.V. ("Aegon Leven"), to transfer per contract date to Aegon PPI or Capital. Basically this part of the book is closed for new sales, leading to lower cost per policy. We foresee that with the establishment of the APF more customers will switch from DB to the APF.

In addition, as we steer on net promoter score as an important key performance indicator, we focus on bringing our products and services online and improve customer experience.

Employees

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

Partial Internal Model

Aegon uses an internal market-consistent framework for valuation and risks already for a significant period of time. Aegon N.V. started the development of an economic capital model in 2004. Consequently the economic framework is embedded into Optas' business and culture. It has been part of Aegon's cycle of risk assessment and management since 2007. It has also helped us to identify the risk categories and products where Solvency II's standard formula is not capturing the specific risks of Aegon's balance sheet. For most risk components we have developed Aegon's own methodology to arrive at required capital (Internal Model). For a number of risks we have, in accordance with the permissions included in Solvency II, opted to use the standard formula as prescribed by Solvency II. Together, these are called the Partial Internal Model. The main reason for choosing a Partial Internal Model for Aegon's business rather than a full Internal Model is to enable focus of Aegon's Internal Model approval activities on the material parts of Aegon's business and risks they face.

With respect to the own funds of Optas, the liability calculation includes the use of the Volatility Adjustment ("VA"), but does not include the use of any transitional measures. Optas uses a PIM to calculate the SCR for its life insurance activities under Solvency II. The PIM was approved by DNB on 26 November, 2015, concluding the Internal Model Application Process ("IMAP"). After the initial IMAP, Optas has made some minor changes to the internal model and has submitted one major change to DNB for approval. Until approval, these model changes are not reflected in the solvency position of Optas. Solvency II capital ratios are still subject to final interpretations of Solvency II regulations.

The capitalization of Optas 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, which is described in further detail in chapter E, Optas 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 Optas 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 Optas, 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.

When using the standard formula of the Solvency II legislative framework, Aegon 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

Optas Pensioenen N.V., ('Optas Pensioenen' or 'Optas') incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law. Optas is wholly owned by Aegon Levensverzekering N.V. ("Aegon Leven") in The Hague. Aegon Leven's share capital is 100% held by Aegon Nederland N.V. Aegon Nederland N.V.'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 N.V. 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 N.V. 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.

Investments in associates and joint ventures

Optas has no investments in associates, joint ventures or investments in structured entities.

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

For Optas, Aegon Leven 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 Optas is PricewaterhouseCoopers Accountants N.V.:

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

Optas is active in pensions insurance and operations. Optas operates exclusively in The Netherlands.

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

The insurance industry has been in a period of major change for a number of years, partly as a result of developments in the economy, but also because customers, legislators and regulators require it. This trend is expected to continue in 2017.

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

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

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

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 Optas.

Underwriting Performance Aegon Leven

Amounts in € million	2016	2015
1 Premium income	95	79
2 Commissions and expenses	-/- 12	-/- 12
3 Claims and benefits paid to policyholders	-/- 191	-/- 180
4 Change in valuation of liabilities for insurance and investment contracts	-/- 84	100
5 Income before tax	65	106

1 Premium income

Premium income for 2016 amounts to € 95 million, which is € 16 million higher compared to 2015. The higher premium income is due to more single premiums regarding the immediate annuities portfolio.

2 Commissions and expenses

The commissions and expenses remained relatively stable in 2016 compared to 2015 and amounts to € 12 million.

3 Claims and benefits paid to policyholders

Claims and benefits paid to policyholder's amount to € 191 million and were € 11 million higher in comparison with last year.

4 Change in valuation of liabilities for insurance and investment contracts

Claims and benefits fluctuates mainly as a result of changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in Results from financial transactions. The change in valuation of liabilities for insurance and investment contracts include a loss of € 60 million (2015: gain € 66 million) regarding fair value movements of guarantees.

5 Income before tax

Income before tax for 2016 was € 65 million, which is a decrease in relation to the income of € 106 million in 2015. This decrease is mainly explained by the impact of the Liability Adequacy Tests on Income before Tax. The impact due to the LAT test in 2016 to the profit and loss statement was € 5 million negative. The cumulative results due to the LAT in the profit and loss statements were reversed in 2015 resulting in a positive income of € 28 million.

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 Optas.

A.3.1. Breakdown of investments

Optas holds investments both for the own general account and for the account of policyholders. The composition of the assets in the balance sheet is presented in the following table.

Breakdown financial assets

Amounts in € million	2016		
	General Account	Account Policyholder	Total assets
Debt securities	1,723	373	2,097
Loans	1,443	0	1,443
Other investments	0	14	14
Shares	0	364	364
Total	3,167	751	3,918

The composition of the asset portfolio for both General account and for the account of policyholders remained relatively stable throughout 2016 compared to 2015:

Breakdown financial assets

Amounts in € million	2015		
	General Account	Account Policyholder	Total assets
Debt securities	1,767	359	2,126
Loans	1,529	0	1,529
Other investments	0	15	15
Shares	150	333	484
Total	3,446	706	4,152

Shares for the general account were sold in 2016.

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

Amounts in € million	2016	2015
1 Investment income	120	137
2 Results from financial transactions	137	-/- 20

1 Investment income

The investment income in 2016 amounts to € 120 million in 2016 (2015: € 137 million) and is further explained in the table below:

Breakdown Investment Income

Amounts in € million	2016	2015
Debt securities (Interest):	29	34
Loans (Interest)	31	33
Other investments (Interest)	60	69
Total	120	137

2 Results from financial transactions

The results from financial transaction in 2016 amounts to EUR 137 million (2015: -/- € 20 million) and is further explained in the table below:

Breakdown Results from financial transactions

Amounts in € million	2016	2015
Realized gains / (losses) on financial investments	7	10
Net fair value change of derivatives	85	-/- 51
Net fair value change on financial assets at fair value through profit or loss for account of policyholder	45	21
Total	137	-/- 20

The net fair value changes of derivatives is caused by a decrease in interest rates in 2016 compared to a rise in interest rates in 2015.

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	14	-/- 46
Net gains / (losses) transferred to income statement	7	10

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 results 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.3.3. Investments in securitization

Optas' interests in unconsolidated structured entities can be characterized as basic interests. Optas does not have loans, derivatives or other interests related to these investments.

For unconsolidated structured entities in which Optas has an interest, the following table presents the amount of investments and total income received.

Table - Investment income on Investments in Securitizations 2016 [amounts in € million]

	Interest income	Total gains and losses	Total	Investments
Asset Backed Securities	0.6	0.02	0.6	84
ABS's – Other	0.5	-	0.5	28
Total	1.1	0.02	1.1	112

Table - Investment income on Investments in Securitizations 2015 [amounts in € million]

	Interest income	Total gains and losses	Total	Investments
Asset Backed Securities	0.8	-	0.8	40
ABS's - Other	0.7	-	0.7	31
Total	1.5	-	1.5	72

A.4. Performance of other activities

Optas 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 Levensverzekering N.V. and Aegon Levensverzekering N.V. holds all issued and outstanding shares in Optas Pensioenen N.V. ("Optas"). Aegon Nederland N.V. is also the holding company of several other companies, such as Aegon Schadeverzekering N.V., Aegon Spaarkas N.V., and Aegon Bank N.V., which together form the Aegon Nederland-group. The Executive Board of Aegon Nederland N.V. centrally manages the Aegon Nederland-group and also forms the statutory board in charge of the day-to-day management of Optas. Because Optas 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 Optas, which means, among other things, that it is responsible for setting and achieving Optas'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 Optas. 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 Optas and is responsible for ensuring that Optas is compliant with all relevant laws and regulation, managing risks and for financing of Optas. 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 Netherlands (“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

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

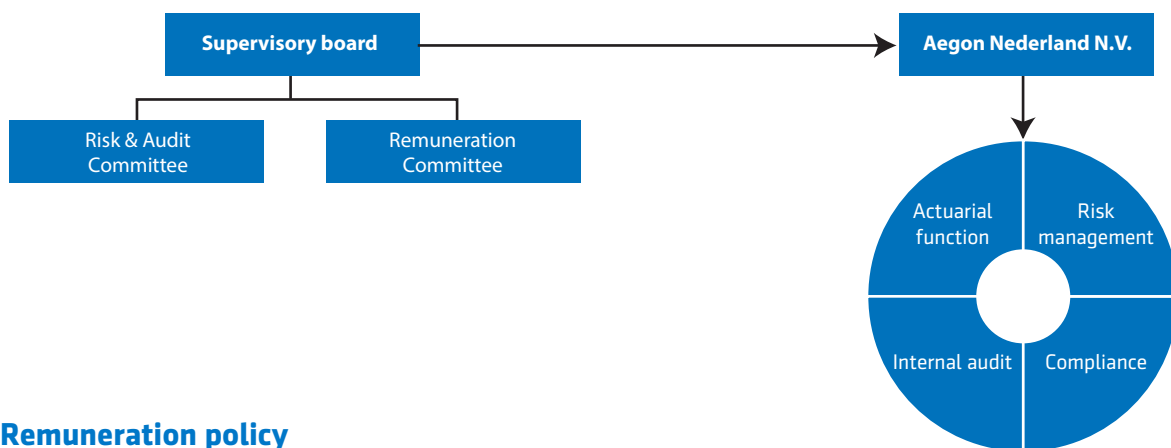
The Supervisory Board has the following committees:

- **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 Optas, internal regulatory reports (AFM / DNB), periodic Risk Management, Compliance, Audit and Actuarial reports and specific issues relating to the SCR of Optas. The committee also discussed the outcomes of the ORSA, the “In Control” program (aimed at further strengthening the internal control environment at Optas) 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 Optas, are employed at and have a labor contract with Aegon Nederland. The salaries, social security contributions and pension contributions for staff working for Optas are recharged to Optas by Aegon Nederland.

Aegon Nederland and the insurers within the Aegon Nederland-group such as Optas, 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 Optas.

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 Optas. 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 Optas 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 Optas, also Optas 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.1.2.1. 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 (EBA) and its predecessor (CEBS) 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 15 December preceding a plan year and 15 January 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.1.2.2. 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 Optas, are employed at and have a labor contract with Aegon Nederland. The salaries, social security contributions and pension contributions for staff working for Optas are recharged to Optas by Aegon Nederland N.V. The table below provides insight at Aegon Nederland N.V. level in the share options, shares or variable components with regard to the remuneration. For Optas the recharge for employee expenses in 2016 amounts to € 3.4 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.1.2.3. 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.

Optas 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 Optas 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 Optas' 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 the 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 operational 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.

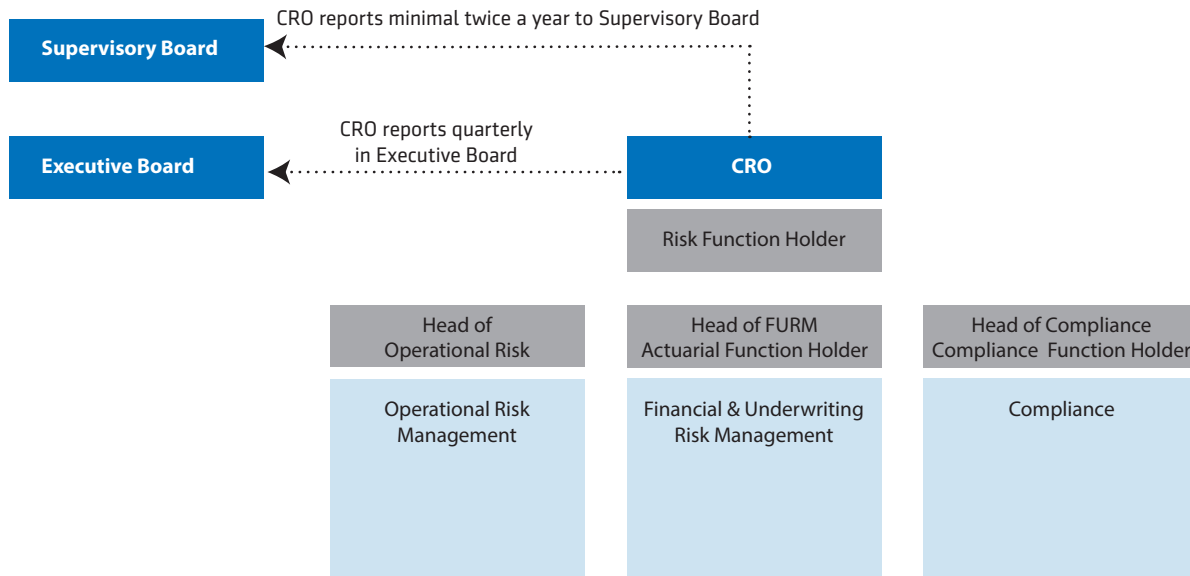
Aegon Nederland controls the risk it faces along various dimensions through its risk governance framework, risk monitoring, model validation, and embedding of risk management into functional areas, such as business planning, capital planning and management, remuneration, pricing and product development. 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

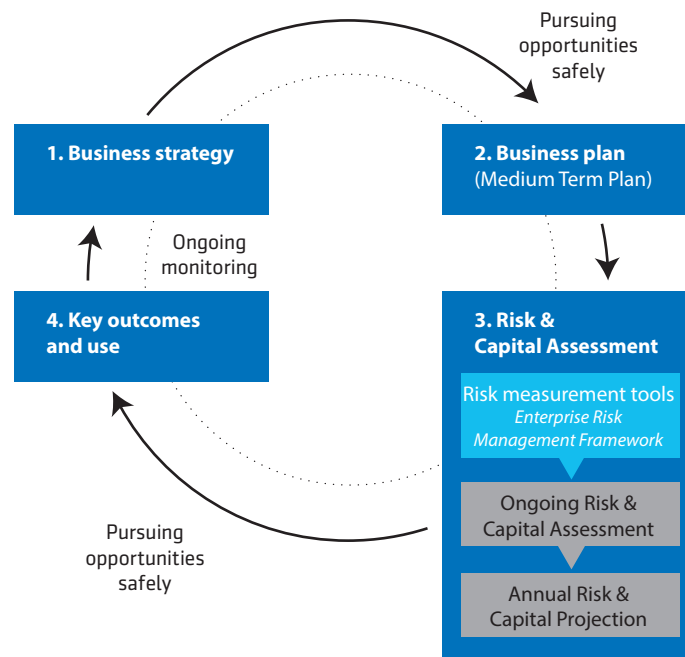
The Own Risk and Solvency Assessment (“ORSA”) is a key internal process with key elements of the capital management and risk management processes which support the business in pursuit of fulfilling its business strategy. The ORSA is presented and reviewed, at least annually, key sections are updated 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 SCR 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.

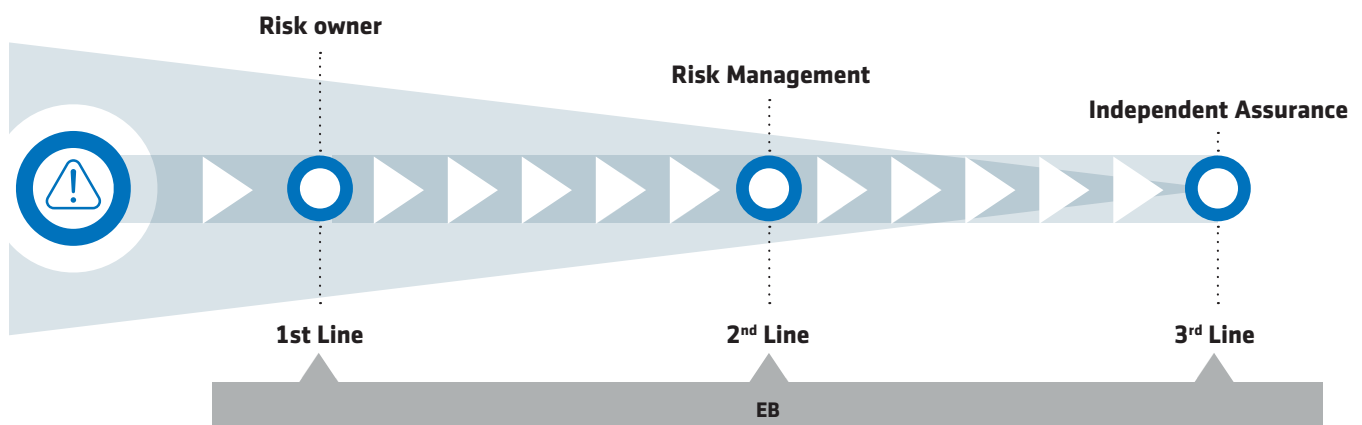


B.4. Internal control system

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 its 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 Compliance. 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 Audit/Risk 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 Optas 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 Optas has 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

Optas 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 Optas, are employed at and have a labor contract with Aegon Nederland. This also means that Optas 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.

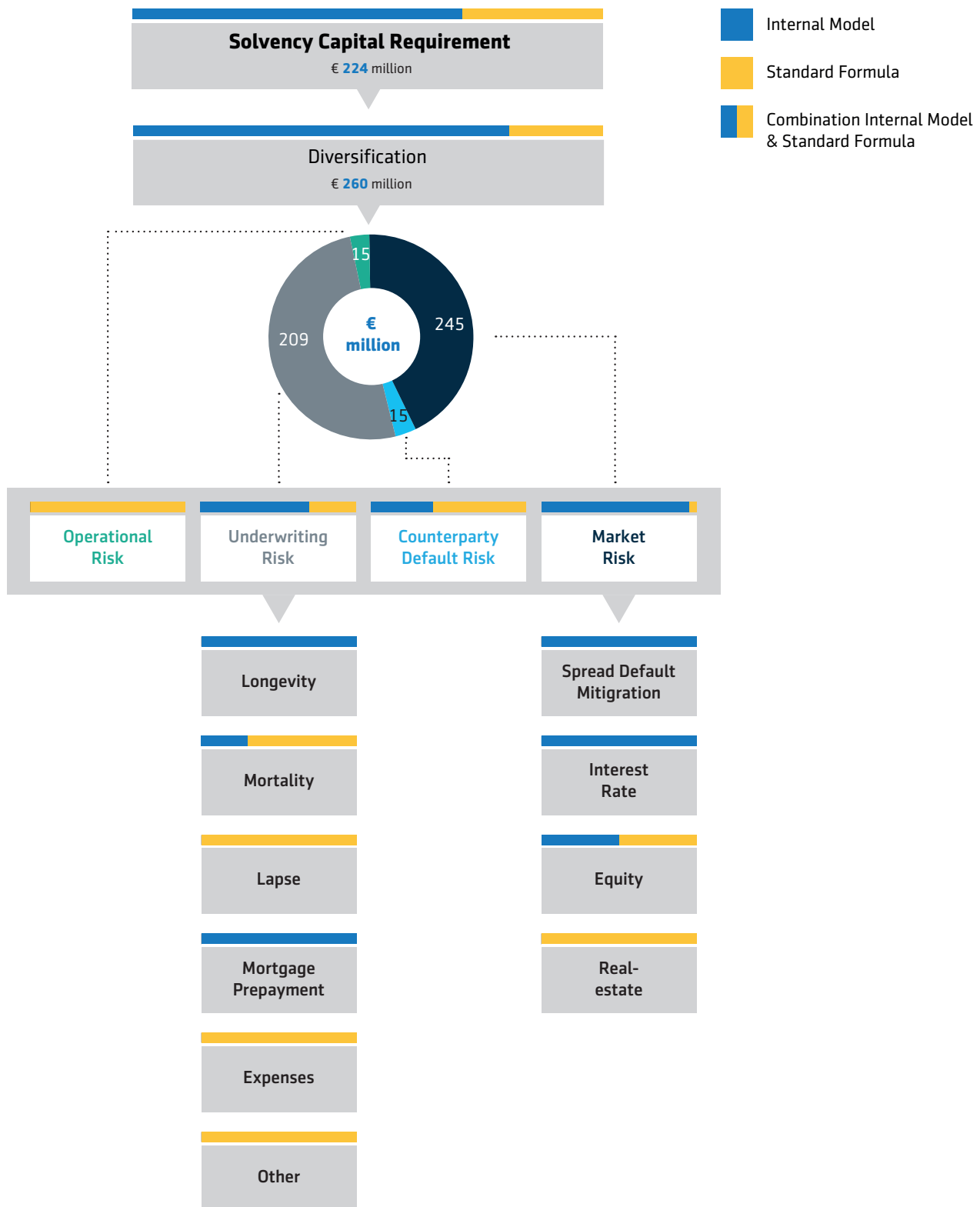
In subsections C.4 through C.8, more detailed information is provided on Underwriting, Market, Credit, Liquidity and Operational risk respectively. Section C.9 discusses the Prudent Person Principle which relates to Market, Credit, Liquidity and Operational risk. Finally, section C.10 comments on other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

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

Assessment of the Risk Profile of Optas forms part of the ERM framework, which is discussed in section B. Within this framework, risk policies provide specific operating guidelines for Optas' risk governance and risk tolerance statements. Optas 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 Optas' PIM. The PIM, which has been developed in close cooperation with Aegon Group, has been validated by Aegon Nederland's Risk Function and approved by Optas' supervisor DNB. The main output of the PIM is the SCR. The SCR of Optas is the minimum level of own funds required in accordance with Solvency II legislation, to absorb unexpected developments of all risk exposures of Optas in combination. It serves to ensure that obligations to policyholders can be met with a very high degree of certainty. When available own funds are in excess of the aggregate SCR, Optas will be able to meet obligations to policyholders with a likelihood of at least 99.5% over a period of one year. The PIM contains separate modules for Market Risk, Counterparty Default Risk, Underwriting Risk, and Operational Risk. For each of these a separate SCR is derived. Major risks within the PIM are assessed using an internally developed model. For the other risks, the Solvency II Standard Formula is applied.

The graph below shows the components and the structure of the PIM of Optas, the amounts of the main risk types and whether the components have been developed internally or are based on the Solvency II standard formula.



For the aggregate SCR, the mitigating effects of diversification between risks are taken into account. Diversification exists as the degree to which different risks are related to one another is, in many cases, limited. As a result, the likelihood of severely adverse developments of all risks occurring within the same year is extremely remote. The impact of diversification is measured separately within the PIM.

As Optas is tax exempt, there is no mitigating or other impact of tax on the SCR.

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. Liquidity risk is further discussed in section C.7.

C.2 Solvency Ratio, Sensitivity Analysis & Stress Testing

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

$$\text{Solvency Ratio} = \text{Own Funds} / \text{SCR}$$

The 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
1,212	224	540%

The current Solvency Ratio of 540% is well in excess of the minimum required level, as well as the target level of the SCR. In addition to the derivation of the SCR, Optas performs sensitivity analyses and stress testing on a regular basis in order to assess the impact of the scenarios considered in these tests.

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 Optas is assessed. For each sensitivity analysis, the immediate impact on Optas' Own Funds, SCR, and Solvency Ratio are as follows:

Table: Overview of sensitivity analyses

Scenario	Change to Solvency ratio in Scenario
5% decrease in Mortality Rates	-/-32%
Interest rate curve +1%	+16%
Interest rate curve -/-1%	-/-50%
20% increase in Equities	-/-2%
20% decline in Equities	-/-1%
Credit Spreads + 1%	-/-55%
Mortgage Spreads + 0.5%	-/-10%
UFR down to 3.7%	-/-22%

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

Extreme Event Scenarios

Optas develops extreme events scenarios on an annual basis. These scenarios are based on the position of Optas 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 (VA) and the Ultimate Forward rate (UFR), improvement of life expectancy 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

Optas considers a Risk Concentration to be either one of the following types of exposure:

- 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 an epidemic that may cause a large number of deaths simultaneously.

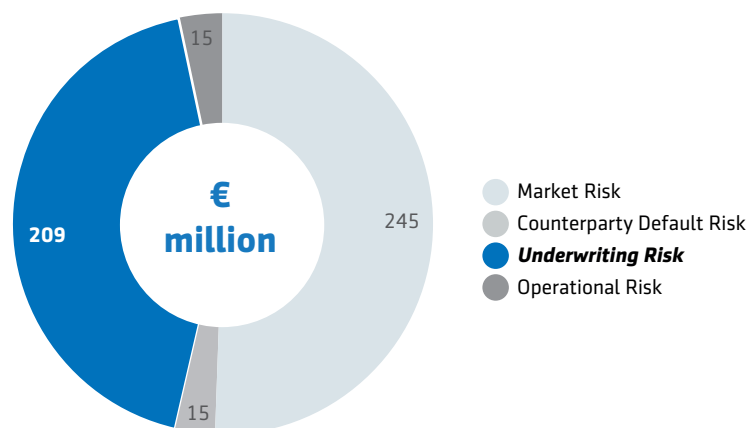
Specific attention to concentration risk is needed in case its impact is not already reflected in the SCR, or another risk assessment method, of the risk type where it manifests itself. In this case, an additional amount of SCR (add-on) for Concentration Risk may be required. If there is no SCR for the 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 SCR for underwriting risk amounts to € 209 million at the end of 2016, before diversification benefits.

Within underwriting risk, Optas has identified the following risk types:

Table: Underwriting Risk types

Risk	Description
Longevity	The risk that improvements in life expectancy result in higher than expected claim payments (in annuity & pension products).
Mortality	The risk that higher numbers of deaths result in higher than expected claim payments (in term and whole life insurance & widows and orphans pensions), either through structurally higher population mortality or extreme events causing a sudden one-off increase in mortality.
Lapse	The risk that lapse rates of insurance policies are higher or lower than expected resulting in lower profits and/or higher claim payments including guaranteed returns.
Mortgage prepayment	The risk of higher or lower prepayment rates, i.e. early redemption, of mortgages, resulting in a lower value of the mortgage portfolios.
Expenses	The risk that the value of future expenses is higher than expected resulting in lower profits

The SCR for underwriting risk amounts to € 209 million. More than 50% of the underwriting risk consists of longevity risk. The remainder comprises expense and prepayment risk.

Longevity risk arises from benefits that are guaranteed over the lifetime of policyholders, which will be prolonged if population mortality rates decrease. Expense risk is the risk that expense levels for outstanding obligations exceed budgeted amounts. Early redemption (prepayment) of mortgages impacts the value of the portfolio of outstanding mortgages.

Lapse risk arises from contract cancellations. For Optas, Lapse risk is negligible as Pension contracts are generally non-cancellable before the contractual end or renewal date. Mortality is the risk of higher than expected mortality of insured's with coverage of a death benefit. Also Mortality risk is negligible, as Optas provides pension benefits and is therefore primarily exposed to the risk of lower overall mortality.

Optas 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. Optas also perform experience studies for underwriting risk assumptions, comparing Optas' experience to industrywide experience. Also, Optas' own experience in combination with industrywide experience is compared with Optas' underwriting assumptions.

C.4.2. Risk Concentrations

Within underwriting risk, Mortality Contagion can be regarded as a Risk Concentration. Mortality Contagion is the risk of a sudden one-off increase in population Mortality due to epidemics or other extreme events. This risk is assessed as part of the Partial Internal model. For Optas, the risk of mortality contagion, and mortality in general, is not material.

C.4.3. Risk mitigation techniques used for underwriting risks

There are no risk mitigating contracts, such as hedges or reinsurance, in place to mitigate the underwriting risk of Optas.

C.4.4. Risk sensitivity for underwriting risks

The main underwriting risk for Optas is Longevity risk, i.e. the risk that life expectancy improves and policyholders as a whole will live longer. In this sensitivity test, average mortality rates for each age cohort decrease by 5% in all future years.

The impact is shown below:

Table: Impact of 5% decrease in Mortality Rates

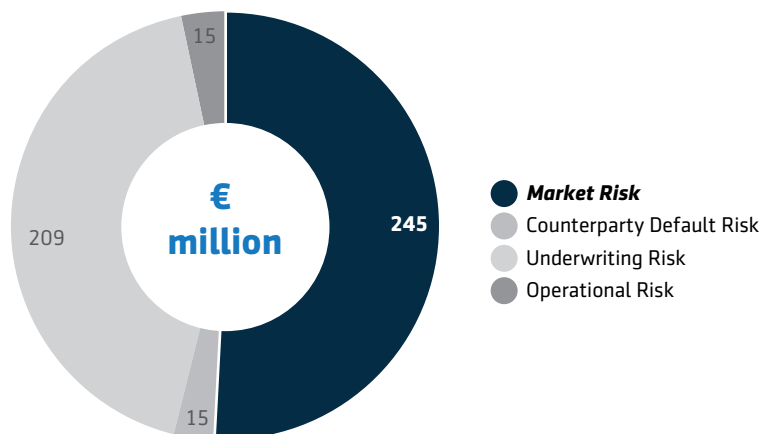
Scenario	Change to Solvency ratio in Scenario
5% decrease in Mortality Rates	-/- 32%

Future benefits to policyholders increase markedly, giving rise to an increase in technical provisions and a corresponding reduction in own funds. The SCR will also increase, as the number of insured's in the portfolio in future years will be higher than currently anticipated. In total, the solvency ratio after a decrease in mortality of 5%, drops by 32% points.

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 € 245 million at the end of 2016, before diversification benefits. The main Market risk is Credit Spread, Default and Migration risk. This risk amounts to more than two thirds of the total SCR. Another main contributor to Market risk is Interest Rate risk.

Credit Spread, Default & Migration Risk

Credit Spread risk is the risk of a decrease in own funds due to a change in value of assets and liabilities by a widening of credit spreads. Credit Spread risk affects the valuation of bonds, mortgages and technical provisions, through the discount rate used for valuing future (incoming or outgoing) cash flows.

Default & Migration risk is the risk of a decrease in own funds due to a decline in the market value of investments, resulting from a rating downgrade, including default, of fixed income investments.

Interest rate Risk (Mismatch Risk)

Interest rate risk is the risk of:

- a decline in own funds due to a change in interest rates, leading to a decline in asset values that is not matched by an equal decline in the value of liabilities,
- a higher value of liabilities that is not matched by an increase in the value of assets.

Equity Risk

The risk of a decrease in own funds due to a change of the value of equities or derivatives linked to equities resulting in one or more of the following:

- Decline in value of equity and equity-like investments held for own account;
- Increase in the value of guarantees on funds held for account of policyholders;
- A reduction in future fees on equity investments held for account of policyholders.

Property Risk

The risk of a decrease in own funds due to a decline in the value of real estate investments.

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. Optas specifically manages concentration risk within the investment portfolio to mitigate concentration risks. Where concentrations risks exist nonetheless, an additional amount of SCR is held.

At the end of 2016, outstanding loans to Aegon Hypotheken B.V. in the amount of € 300 million are regarded as a Concentration risk exposure, for which an additional SCR of € 44 million is included in the total SCR for Credit Spread, Default & Migration risk.

C.5.3. Risk mitigation techniques used for Market risks

Optas 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. Optas uses derivatives to closely manage its interest rate risk exposure.

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

All derivative use is governed by Optas' Derivative Use Policy.

C.5.4. Risk Sensitivity for Market risks

For Market Risk, the following sensitivity tests are performed on a bi-annual basis with respect to Credit Spreads, Interest Rates and Equity Prices:

1 Increase (decrease) of interest rates by 1% point.

Interest rates used for the valuation of assets are increased (decreased) by 1% through a parallel shift across the entire yield curve. Assets affected include bonds, loans, mortgages, and derivatives. Derivatives form part of the hedge program of Optas to mitigate interest rate risk.

For technical provisions, only interest rates for maturities up to 20 years are increased (decreased) by 1%. For technical provisions with maturities longer than 20 years, interest rates converge from the increased (decreased) 20 year rate to a fixed rate derived from the UFR 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%	-/- 50%
Interest rate curve + 1%	+16%

A decrease of interest rates by 1% percentage point leads to a decrease of Own Funds. The value of Government Bonds, Derivatives and Mortgages decline in this scenario, and the decline is partly 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. In total, the Solvency ratio decreases by 50 % percentage points.

Conversely, in the scenario where interest rates increase by 1 percentage point, the value of own funds increases and the SCR decreases and the Solvency ratio increases by 16% percentage points.

2 Increase (decrease) in Equity prices by 20%

In these scenarios, an overall increase (decrease) of all equities on the balance sheet of Optas is assumed. As equities are predominantly held for account of policyholders, the impact of changes in equity values on the Solvency ratio of Optas is limited.

However, higher equity values give rise to higher asset management fees on investments held for account of policyholders, which improves the Solvency ratio. On the other hand, Optas has issued minimum guarantees to investments for account of policyholders. The provisions held to cover these guarantees increase when equity values decline.

To mitigate the equity risk arising from equities held for own account, guarantees issued to policyholders and volatility of asset management fees, Optas has put derivative hedges in place. As a result, the exposure of Optas to equity risk is minimal, as illustrated in the table below.

Scenario	Change to Solvency ratio in Scenario
20% increase in Equities	-/- 2%
20% decline in Equities	-/- 1%

3 Sensitivity to Non-Government Credit Spreads

In this scenario, Credit Spreads on mortgage loans, other loans and bonds, other than government bonds, increase by 1% point. The increase in credit spreads results in a lower value of the Mortgage and Corporate bond portfolios. At the same time, the value of technical provisions becomes lower, due to a higher VA, which is incorporated in the discount rate used for valuation of the technical provisions.

In aggregate, the value of investments as well as technical provisions become lower. As the drop in technical provision exceeds the decline in the value of assets, the value of own funds becomes higher.

When the SCR is applied in the base scenario, the drop in asset value is partly compensated by a simultaneous reduction of the technical provisions as a result of a higher VA. The increase of the VA is however capped at a level commensurate with the characteristics of the actual asset portfolio held. As a result, when the SCR is recalibrated in the sensitivity scenario, the mitigating impact of the reduction of the technical provision is less pronounced than in the base scenario.

As a result, the SCR for Credit spread risk in this scenario is higher than in the base scenario. The combination of higher own funds and higher SCR leads to a drop in the Solvency ratio by 55% points.

Scenario	Change to Solvency ratio in Scenario
Credit Spreads + 1%	-/-55%

4 Sensitivities to Mortgage Credit Spreads

In this scenario, credit spreads on mortgage investments increase by 0.5%. All other assumptions, including the VA that impacts the liabilities, remain unchanged.

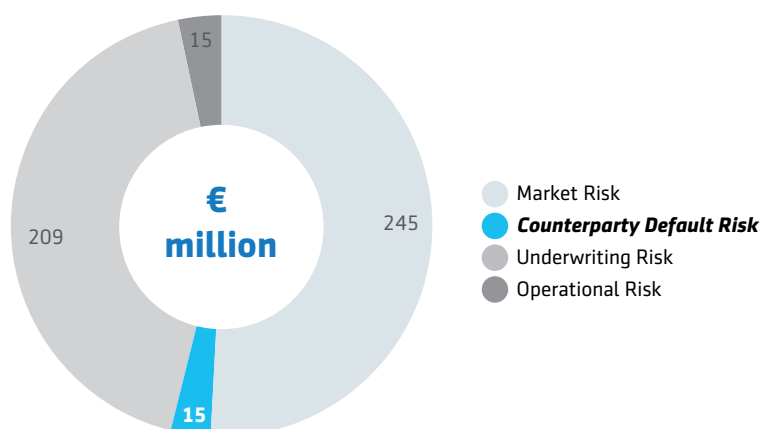
Own funds decline due to a lower value of the Mortgage Portfolio. Also, the SCR decreases as the impact of the SCR shock is applied to a lower base value. In total, the Solvency ratio declines by 10% points as a result.

Scenario	Change to Solvency ratio in Scenario
Mortgage Spreads + 0.5%	-/- 10%

C.6. Credit risk (Counterparty Default Risk)

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

Figure: SCR Counterparty Default Risk vs. all other Risks



Credit risk comprises Spread, Counterparty Default and Migration risk. 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. In this section, Counterparty Default Risk in relation to counterparties of risk mitigating transactions and current accounts, is discussed.

The SCR for Counterparty Default risk amounts to € 15 million at the end of 2016, before diversification benefits. Counterparty Default risk is mitigated by the requirement for parties in derivatives transactions to pledge collateral, as discussed in paragraph C.6.3.

Optas 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 Counterparty Default risk is to diversify and limit exposure to individual issuers. More specifically, Optas has put 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 Optas 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

Most liabilities of Optas are of a long term nature and will not create an unexpected short term liquidity requirement. Furthermore, under normal circumstances a significant proportion of the investment portfolio can be quickly converted into cash. However, it may not be possible to sell some part of the asset portfolio, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises at a reasonable price on short notice, if necessary.

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 Credit Rating.

Optas 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

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 upwards shock to the risk free interest rate by 1.5% points, 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. The following table shows available and required liquidity, prior to occurrence of the stress scenario at the end of 2016 (the current position), as well as the position at the end of 2016 and 2018 in the stressed scenario.

Table: Available, Required and Excess Liquidity under a two year stress scenario (million €)

	31/12/2016	31/12/2016 Stress Scenario	31/12/18 Stress Scenario
Available Liquidity	2,669	2,686	3,262
Required Liquidity	278	511	1,292
Excess Liquidity	2,391	2,174	1,970

C.7.2. Risk Concentrations

The described stressed liquidity scenario 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)

EPIFP reflects the current value of the net cash flow expected to arise from in-force contracts until the end date of each contract. Note that the EPIFP is determined only for contracts where such a value is positive. EPIFP forms part of the technical provisions of Optas, with a positive value of EPIFP leading to a reduction of the total technical provision.

A high value of EPIFP could impact liquidity, as future profits are not available in cash at present. As the total amount of the Expected Profit in Future Premiums (EPIFP) amounts to €0 million at the end of 2016, there is no impact on the liquidity position. Note that this value does not reflect derivatives contracts that have been put in place in previous years to hedge against the risk of low interest rates.

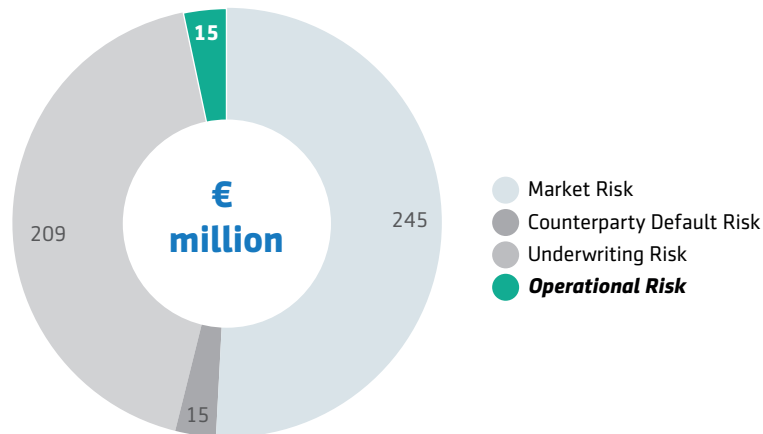
C.7.5. Risk sensitivity for liquidity risks

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



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.

The SCR for Operational Risk is determined with the Standard Formula under Solvency II, and amounts to € 15 million at the end of 2016. It is based on volumes of premiums, technical provisions and expenses, with a distinction between index and unit linked, and other business. Additional measures have been developed internally for the day-to-day management and assessment of Operational risks.

Optas 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:

Table Types of Operational risk

Risk Type	Description
Legal and Compliance risk	<i>Legal and compliance risk</i> 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	<i>Processing risk</i> 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	<i>Business risk</i> 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.
Financial crime risk	<i>Financial crime risk</i> is the risk of losses due to a wrongful act, omission, breach of duty or trust, intentionally performed by an employee, intermediary or external party, which potentially could or results in a disadvantage to Optas or another.
People risk	<i>People risk</i> 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	<i>Facility risk</i> 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	<i>Systems risk</i> and business disruption risk is the risk of losses due to inadequate or failed business continuity planning, back-up and recovery, fall-back 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 Optas' 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 Optas' reputation, or hinder Optas' operational effectiveness.

Optas' approach to operational risk assessment is based on scenario analysis. Optas 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.

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

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

C.8.4. Risk sensitivity for Operational risk

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 Optas, 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, Optas 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 particularly relevant, as they form a major asset class in which Optas holds investments. Within the Aegon Netherlands holding, of which Optas forms part, mortgage loans have been originated and serviced for over thirty years. Therefore considerable expertise exists within Aegon Netherlands in these areas.

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

C.10. Other Material Risks & Uncertainties: UFR

Optas has identified an uncertainty that may have a material impact on the valuation of its obligations and the level of the SCR in the near future. These are not included in the descriptions of the separate risk types. It relates to a possible adjustment of the Ultimate Forward Rate (UFR).

The UFR is the risk free interest rate over a one year period that is expected to take into account after an extremely long period, i.e. after 60 years. It is used, in combination with market observed interest rates up to 20 years, to derive interest rates for maturities longer than 20 years.

The current UFR of 4.2% has been set by the European Insurance and Occupational Pensions Authority (EIOPA). It is based on historically observed real interest rates in combination with long term inflation expectations. In recent communications, EIOPA has proposed a gradual adjustment of the UFR over a number of years to 3.65%.

In the scenario shown below, the impact of an immediate adjustment of the UFR from its current level of 4.2% to 3.7% is quantified.

Scenario	Change to Solvency ratio in Scenario
UFR down to 3.7%	-/-22%

The reduction of the UFR leads to a reduction in own funds due to higher insurance obligations. At the same time, the overall SCR increases as a result of the increase in insurance obligations. In total, the ratio of own funds over SCR decreases by 22% points.

D. Valuation for Solvency Purposes

This section outlines the valuation of the assets and technical provisions of Optas 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 statutory 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.	1,880	1,852
Bonds	D.1.2.2.	1,750	1,723
Government Bonds		1,499	1,475
Corporate Bonds		138	136
Collateralized securities		113	112
Derivatives	D.1.2.3.	129	129
Assets held for index-linked and unit-linked contracts	D.1.2.4.	751	751
Loans and mortgages	D.1.2.5.	2,675	2,611
Loans and mortgages to individuals		1,236	1,179
Other loans and mortgages		1,440	1,432
Insurance and intermediaries receivables		6	5
Receivables (trade, not insurance)	D.1.2.6.	167	167
Cash and cash equivalents	D.1.2.7.	1,166	1,166
Any other assets, not elsewhere shown		0	33
Total assets		6,645	6,586

Balance Sheet	Section	Solvency II value	Statutory accounts value
Liabilities			
Technical provisions - life (excluding index-linked and unit-linked)	D.2.	3,484	3,166
Technical provisions - health (similar to life)	D.2.	4	4
Best estimate		4	0
Technical provisions - life (excluding health and index-linked and unit-linked)	D.2.	3,480	3,162
Best estimate		3,345	0
Risk margin		135	0
Technical provisions - index-linked and unit-linked	D.2.	734	756
Best estimate		725	0
Risk margin		8	0
Derivatives	D.3.1.1.	142	239
Insurance & intermediaries payables		8	8
Payables (trade, not insurance)		49	49
Any other liabilities, not elsewhere shown		1	0
Total liabilities		4,419	4,218
Excess of assets over liabilities		2,226	2,368

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.

Table: Total Assets (in € million)

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.	1,880	1,852	27
Bonds	D.1.2.2.	1,750	1,723	27
Government Bonds		1,499	1,475	25
Corporate Bonds		138	136	1
Collateralized securities		113	112	1
Derivatives	D.1.2.3.	129	129	0
Assets held for index-linked and unit-linked contracts	D.1.2.4.	751	751	0
Loans and mortgages	D.1.2.5.	2,675	2,611	65
Loans and mortgages to individuals		1,236	1,179	57
Other loans and mortgages		1,440	1,432	8
Receivables (trade, not insurance)	D.1.2.6.	167	167	0
Cash and cash equivalents	D.1.2.7.	1,166	1,166	0

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 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 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:

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

Optas Pensioenen 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 Optas 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. Optas maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and therefore less judgment 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 Optas, 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

Optas does not recognize deferred tax assets under Solvency II and IFRS, as Optas is tax exempt.

In this section of the report the valuation bases under Solvency II and IFRS of the material 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 € 1,880 million. The IFRS balance sheet contains an investment position of € 1,852 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 Optas Pensioenen 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 Optas; and 3) financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Optas 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 Optas does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale.

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

Measurement

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

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

Amortized cost

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

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

Fair value

The financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the fair values are provided in the notes to the financial statements.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. The valuation techniques that include unobservable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset's cash flows expire and when Optas 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 Optas has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Optas' 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 € 1,750 million. The IFRS balance sheet contains a bonds position of € 1,723 million. The Solvency II balance sheet is € 27 million due to the reclassification of accrued interest from Any other assets.

D.1.2.3. Derivatives

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

The Solvency II balance sheet contains a derivatives position of 129.4 million. The IFRS balance sheet contains a derivatives position of 129.1 million. The Solvency II balance sheet is € 0.3 million higher due to the reclassification of accrued interest from Any other assets.

D.1.2.4 Assets held for index-linked and unit-linked contracts

IFRS does not distinguish between index-linked and/or unit-linked funds. Investments held for account of policyholders consist of investments in financial assets, as well as investments in real estate. Investment return on these assets is passed on to the policyholders. Also included are the assets held by consolidated investment funds which are backing liabilities towards third parties. Investments for account of policyholders are valued at fair value through profit or loss.

The Solvency II Balance sheet contains an assets held for index-linked and unit-linked contracts position of € 751 million, which is equal to the IFRS Balance sheet position.

D.1.2.5. 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;
3. Net present value calculation.

In this approach, cash flows for each mortgage loan part in Optas' portfolio are projected separately, based on product characteristics, mortgage rates and interest reset dates. Optas' 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 € 59 million higher due to the revaluation of Loans and Mortgages to fair value and € 6 million higher due to reclassification of accrued interest from Any other assets

D.1.2.6. Receivables (trade, not insurance)

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

Solvency II balance sheet receivables (trade, not insurance) position is equal to the IFRS Balance sheet position.

D.1.2.7. Cash and cash equivalents

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable. There is no difference in valuation between the Solvency II balance sheet and IFRS.

D.2. Technical provisions

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

The table below shows the Solvency II and Statutory liabilities at year-end 2016

	Section	Solvency II value	Statutory accounts value	Delta
Technical provisions - life (excluding index-linked and unit-linked)	D.2.	3,484	3,166	319
Technical provisions - health (similar to life)	D.2.	4	4	0
Best estimate without options and guarantees		4	0	4
Technical provisions - life (excluding health and index-linked and unit-linked)	D.2.	3,480	3,162	319
Best estimate with options or guarantees		3,345	0	3,345
Risk margin		135	0	135
Technical provisions - index-linked and unit-linked	D.2.	734	756	-22
Best estimate with options or guarantees		725	0	725
Risk margin		8		8

The provision is split in Technical provision-Life and Technical provisions - Index-linked and Unit Linked and further in provision with or without guarantees.

For Solvency II the default valuation approach is to use market prices whenever available. If these prices are not available alternative valuation methods can be applied. Because there is no active market for insurance liabilities Optas calculates the Solvency II provision as the sum of the probability weighted average of future cash flows, the time value of options and guarantees and the risk margin.

The calculation of the best estimate liability is on a policy by policy basis, using a market consistent basis and current risk-free rate as prescribed by EIOPA and including indirect overhead expenses. Scaling is applied if products are not modelled and when data is incomplete or unavailable at all.

For products that contain options and/or guarantees the fair value of the options and guarantees is taken into account. This provision is calculated separately on a stochastic basis, taking into account risk and volatility. The provision for options and guarantees is calculated using model points.

For the calculation of the risk margin Optas recognizes homogeneous risk groups, each representing a group of insurance contracts with comparable risk characteristics. For the selection of homogeneous risk groups an appropriate balance between material substance (to be able to perform reliable statistical analyses) and the homogeneity of the risk characteristics within the group of insurances is necessary. Optas determines the risk groups in such a way that the risk groups are stable over time.

The following criteria are taken into account:

- Underwriting criteria (Medical examination or not);
- Claim pattern (Lump sum, annuities);
- Risk profile (Longevity or mortality risk);
- Specific product features (savings or term insurance, guarantees or participating/non-participating); and
- Administrative unit (Own account Optas or risk policyholder).

Based on the features described above, Optas has split the portfolio into two homogenous risk groups. The calculation of the technical provision is on a policy by policy basis, except the provision for options and guarantees, for which model points are used.

Optas does not offer products with profit participation where the policyholder participates in the profit of the firm. All profit sharing is in the form of index or unit-linked, or based on external benchmarks such as investment returns on government bonds.

Discounted Best Estimate Cash Flow

Cash flows are projected on a best estimate basis, i.e. as a probability weighted average taking into account all uncertainties affecting these cash flows. The cash flows are split in claims, expenses and premiums and are based on specific product characteristics. The main assumptions used to derive the discounted best estimate cash flows are set by Aegon Nederland, are updated annually and are approved by management. The assumptions can be subdivided into underwriting assumptions and assumptions for mortgages. The underwriting assumptions are:

- Mortality;
- Morbidity;
- Policy holder behavior;
- Expenses; and
- Other typical Group Pensions parameters (career development and marriage and partner frequencies).

Below we discuss the main drivers (mortality, cancellation and expenses) for the calculation of Solvency II technical provisions.

Mortality

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

Cancellation Rates / policy holder behavior

Optas is exposed to potential financial impact from changes in the value of its liabilities caused by policy cancellations. Cancellation rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Also Optas has an active policy to, where appropriate, transfer contracts or policies to other insurance entities of Aegon Nederland.

Policyholder behavior can be reflected in several ways, depending on the product and policy agreements:

- Full or partial termination;
- Premium termination (policy becomes paid up before end of premium payment term);
- Decrease of premiums or flexible premium / additional premium payments;
- Policy conversion (fund switching, reduce/reverse paid up status);
- Utilization of policyholder fund allocation privileges; and
- Decisions on when and how much to annuitize

Adverse changes in underlying risk drivers will affect Optas' ability to meet business objectives and in particular to ensure business continuity. Reliable own experience, as well as available industry wide data, are used in establishing assumptions.

Expenses

The cost base for the determination of the maintenance expenses allocated to the insurance contracts is determined at Aegon Nederland level, using the results from the Activity Based Costing analyses. In this analyses the expenses are determined per cost place for each business line and support units.

The maintenance expenses allocated to the insurance contracts are transformed into expenses per policy, taking into account product/contract features like type of contract or status (active, retired or inactive).

The initial cash flow projections for expenses are based on actual expense levels and takes into account inflation in future periods.

Discounting

The cash flows are discounted using the Solvency II yield curve, including VA, UFR and credit risk adjustment. The risk-free rate curves used for the purposes of the Solvency II valuation will be published by EIOPA for each relevant currency.

The curves are determined by EIOPA using principles outlined in the Solvency II regulations.

The ultimate forward rate is the risk free interest rate over a one year period that is expected to prevail after an extremely long period, i.e. after 60 years. It is used, in combination with market observed interest rates up to 20 years, to derive interest rates for maturities longer than 20 years. EIOPA has set the current UFR at 4.2%. It is based on historically observed real interest rates in combination with long term inflation expectations.

For Index Linked and Unit Linked products the expected investment return is equal to de Solvency II yield curve. Expenses incurred and deducted in case of surrender or other changes (e.g. risk premiums) are also taken into account in the best estimate and discounted with the Solvency II yield curve.

Any guarantees given with respect to the performance of the funds are valued separately, as explained further below.

Options & Guarantees

If products contain options and/or guarantees (e.g. surplus interest profit sharing or guaranteed investment returns), the market value of the option or guarantee is calculated separately on a stochastic basis, taking into account risk and volatility.

The market value contains an intrinsic as well as a time value and the basis curve to calculate the market value of the options and/or guarantees is the Solvency II swap curve including UFR and VA. To create a scenario set for investment returns and interest rates market volatilities are used. The market volatilities are derived from market prices of tradable financial instruments.

Optas has the following categories of products containing guarantees:

- UVL and Unit-linked;
- Group pension products

UVL and Unit Linked

When investing in a fund with a guarantee (mix or interest fund) the proportion of the policy invested in this fund will accumulate at a guaranteed rate (in the range of 3% to 4% and before deduction of the asset management fee and the service fee). The accumulation rate varies by fund therefore the guarantee is fund specific.

Group pension contracts

The following categories of pension products contain guarantees:

- Unit-linked (defined contribution contracts)
- OA (Surplus interest profit sharing contracts)
- TL (interest rate rebate contracts)

Unit-linked

The vast majority (70%) of this portfolio consists of endowment retirement policies whose premiums are invested in funds that policyholders are free to select by themselves to a certain degree. Certain funds have a guaranteed return. On maturity date, for the portion of the maturity benefit that is contained in a guaranteed fund, the guaranteed amount is paid or the fund value itself if the actual fund value is higher. If the actual fund value is less than the guaranteed value, the guaranteed value will be paid by Optas. For the part of the maturity benefit in non-guaranteed funds, the fund value is paid. These products have mixed exposure due to the variety of underlying funds and the possible combinations of guaranteed and non-guaranteed funds.

OA

This product is a traditional pension product with guaranteed liabilities. In the contract there is an agreed interest rate and an agreed mortality table. The part of the provision that is not needed for the direct claims are invested in so called "tranches", being equal redemption loans with a maturity of usually 10 years. The reference interest rate on these tranches is linked to government bonds investment returns (U-rate) at the time of the purchase, where the premiums are calculated using the U-rate applicable to that tranche. Over time if an interest surplus emerges this may be distributed to policyholders. It may be used to offset previous losses or to act as a buffer for future losses. There is also a charge for indexation applied to this product.

TL

These contracts have both interest guarantees and profit sharing mechanisms, therefore the exposure is mixed. If interest rates are low, based on the pricing rates, clients do not pay a surcharge on future premiums. However if interest rates are high then policyholders receive a rebate on future premiums. The profit share is given once in advance. Future discounts cannot be negative, therefore all rebates applied are guaranteed. For this, Optas maintains a guarantee provision.

Risk Margin

The risk margin can be considered as the compensation required for the cost of holding capital against non-hedgeable risks over the full run-off period of the liabilities and is added to the best estimate liability. The risk margin captures the following risks:

- underwriting risk;
- credit risk with respect to reinsurance contracts, arrangements with special-purpose vehicles, intermediaries, policyholders and any other material exposures which are closely related to the insurance and reinsurance liabilities; and
- operational risk

In order to calculate the risk margin, the SCR's for above mentioned risks for future years need to be determined. The expected SCR in future years is projected by using the projected best estimate liability as "risk driver" and the SCR for non-hedgeable risks at reporting date as starting point. Optas applies a cost of capital percentage of 6%, in accordance with the Delegated Acts.

Contract boundaries

According to Solvency II regulations the valuation of insurance and reinsurance obligations should include obligations relating to existing insurance and reinsurance business. Obligations relating to future business should not be included in the valuation. Where insurance and reinsurance contracts include policyholder options to establish, renew, extend, increase or resume the insurance or reinsurance cover or undertaking options to terminate the contract or amend premiums or benefits, a contract boundary should be defined to specify whether the additional cover arising from those options is regarded as existing or future business.

For group pension contracts the contract boundary for the premium payments is equal to the contract renewal date. After the contract renewal date the contract becomes paid up and will run-off until the last insured person dies.

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 Mortality 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. Refer to chapter C2 for sensitivity results.

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

Below we describe the difference in the valuation basis for IFRS and Solvency II.

IFRS measurement**Life (excluding index linked and unit linked)**

The statutory liabilities arising from traditional life insurance products are typically measured using the 'net premium method'. Under this method, the liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on historic underwriting assumptions and a fixed discount rate of 3% or 4% (depending on the initiation date of the policy). For contracts exposed to long-term mortality assumptions are used. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

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

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

In establishing the liability, guaranteed minimum benefits issued to the policyholder are reflected in the guarantee provision.

Index linked and unit linked

For Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders. The IFRS liability for the insurance contracts for account of policyholders is measured at the policyholders account balance. In the case that guarantees are applicable, the fair value of the guarantee is not included in the technical provision but presented as a derivative liability.

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

Every reporting period a liability adequacy test (IFRS LAT) is performed. The IFRS LAT provision is calculated as the sum of the best estimate provision, including a risk margin and a provision for options and guarantees. The measurement for IFRS LAT also includes provisioning for expected expenses and longevity. If the IFRS LAT shows a deficit, which is the case at year-end 2016, the IFRS provisions will be set equal to the IFRS LAT provision. For the determination of the IFRS LAT provision also the differences between fair values and book values of assets (mortgages and other loans) are taken into account.

Difference between IFRS and Solvency II measurement

For details on the methodology and the underlying assumptions to calculate the Solvency II technical liabilities we refer to section D.2.1.

The main differences between the IFRS LAT liability (€ 3.9 billion) and Solvency II liabilities (€ 4.2 billion) are the result of:

- Reclassification of the provision for options and guarantees (+ € 97 million);
- Surplus value mortgages included in IFRS LAT (+ € 59 million);
- Difference in risk margin (+ € 89 million);
- Valuation differences guarantee provision IFRS vs Solvency II (+ € 28 million); and
- Different curve, the EIOPA curve for Solvency II and the interest curve used for the IFRS LAT (impact +/- € 2 million).

Important driver for the difference between the IFRS LAT liabilities and the Solvency II liabilities are the difference in the risk margin and the surplus value of the mortgages.

The IFRS LAT and Solvency II risk margin are both calculated using the cost of capital approach with a cost of capital rate of 6%. Also the same shocks apply and future SCR's are projected using the projected best estimate liability as "risk driver".

Although the methods are similar there are differences, see below (in order of importance):

- IFRS LAT uses no diversification between non-hedgeable risks and uses a 80% confidence interval, where Solvency II uses diversification and a confidence interval of 99,5%;
- IFRS LAT uses the Operational risk (OR) risk margin based on internal economic framework, and Solvency II uses OR standard formula;
- Zero yields used for determining the projected SCR's differ as IFRS LAT and Solvency II have different yield curves. Please note that the SCR's for Solvency II are based on the risk free rate without VA, as per the Level 3 guidelines; and
- Zero yields used for discounting the cost-of-capital differ as IFRS LAT and Solvency II have different yield curves. Please note that the SCR's for Solvency II are based on the risk free rate without VA.

The IFRS LAT liability (€ 3.9 billion) is determined taken into account the difference between the fair value and the book value of the mortgages (€ 59 million). Under Solvency II the mortgages are valued at fair value.

Further differences are that under Solvency II no accrual accounting is applied, meaning that upfront fees are not deferred but recognized as the cash flow arises. As opposed to IFRS, Solvency II, includes general overhead expenses in the contract cash flows.

Own credit gains or losses are not recognized for Solvency II, as liabilities are discounted with credit risk free discount rates, including the Volatility Adjustment. Another difference relates to the recognition of embedded derivatives. Some of the embedded derivatives, which are required to be bifurcated under premises of IAS39 and IFRS 7, remain part of Technical provision under Solvency II.

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. Optas does not to apply the matching adjustment.

D.2.5. Volatility adjustment

The VA is applied by Optas and is equal to 13 basis points at year-end 2016. The volatility adjustment 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 impact of the application of the VA on the SCR ratio is shown below:

Solvency II Capital	Own Funds	SCR	Ratio
Optas Q4 2016	1,212	224	540%
Dynamic VA		89	-/- 153%
VA spread	-/- 54		-/- 18%
Optas Q4 2016 without VA	1,158	314	369%

The VA is an integral part of Solvency II and Optas considers the VA sensitivity an inappropriate measure for market movements. Optas applies a dynamic VA model and through scenario analyses the impact of changes in spreads on assets and liabilities is assessed. If the VA is not applied, the dynamic VA offset is also not applicable and therefore the SCR would increase.

D.2.6. Transitional risks-free interest rate-term structure

Insurance undertakings may, subject to prior approval by the Supervisory Regulator, 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). Optas decided not to apply these transitional measures.

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

At the end of 2016 Optas has no active reinsurance contracts.

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

The main driver for the increase of the Solvency II technical provision with € 130 million is the decrease of the discount rate and the improved equity levels, with a combined impact of € 290 million.

Spread and equity variances lead to an increase of € 22 million. The spread variance relates to the guarantee provision, where due to the spread narrowing separate account fixed income investments increased and lowering the guarantee provision. The equity variance relates to the increased equity levels, lowering the guarantee provision.

Also the underwriting assumptions have been updated in accordance with the assumption setting methodology. Compared to year-end 2015 the best estimate liabilities decreased with € 63 million, mainly driven by an update of the experience factors for mortality. The experience variance is equal to € 77 million.

Model changes increased the provision with € 6 million.

The unwind of the best estimate as the result of portfolio developments during 2016 resulted in an decrease of € 202 million.

D.3. Other liabilities

The break-out in table below shows the value of the liabilities (i.e. technical provisions and other liabilities) by major liabilities class under Solvency II and IFRS.

Table: Liabilities (in € million)

Balance Sheet	Section	Solvency II value	Statutory accounts value	Delta
Other Liabilities				
Derivatives	D.3.1.1.	142	239	-/- 97

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, 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. Derivatives

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

The Solvency II balance sheet contains a derivatives position of 142 million. The IFRS balance sheet contains a derivatives position of 239 million. The Solvency II balance sheet is € 97 million lower due to the reclassification of options and guarantees to the Technical Provisions.

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; 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 Optas 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 Medium Term Plan and Own Risk & Solvency Assessment processes. These projections consider regular as well as extreme scenarios, in order to ascertain that Optas is able to fulfil its obligations to policyholders in these scenarios.

Key figures

Eligible own funds of Optas equaled 540% of the SCR at year end 2016. This ratio being greater than 100%, evidences Aegon's ability to meet policyholder obligations when they fall due, even under stressed conditions. The Solvency II SCR target range for Optas is set at 130% - 150% by the company's Executive Board. The current ratio is in the opportunity zone of our capital management policy.

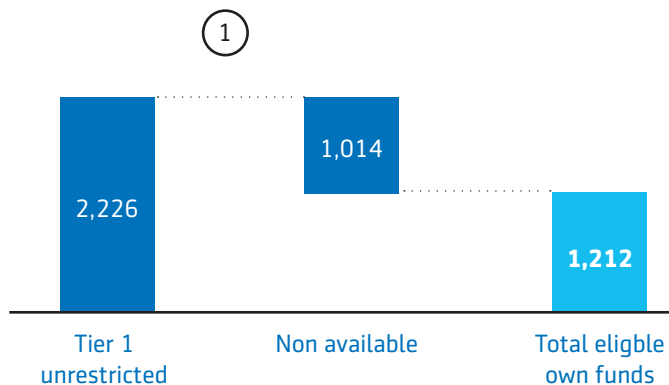
E.1.2. Own Funds – Quality & Amounts

Own Funds are classified into different tiers, indicating their quality and availability to fully absorb losses. Total own funds of Optas 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
<p>Unrestricted Tier 1</p> <ul style="list-style-type: none"> • Equity (Share capital and share premium) • Reconciliation Reserve <p>Restricted Tier 1</p> <ul style="list-style-type: none"> • Perpetual subordinated capital instruments with loss absorption 	<ul style="list-style-type: none"> • Dated or perpetual • Subordinated capital instruments <ul style="list-style-type: none"> - With an original maturity of at least 10 years - Limited loss absorption - With suspension of payments and deferral of interest 	<ul style="list-style-type: none"> • Dated or perpetual • Subordinated capital instruments <ul style="list-style-type: none"> - With an original maturity of at least 5 years - Limited loss absorption - With suspension of payments and deferral of interest • Net deferred tax assets

An overview of own fund components including an allocation by tier is given below

Overview of eligible own funds Optas 31/12/2016 (million €)



The components of the own funds of Aegon Leven are described below:

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 the table below the Reconciliation Reserve amounts to approximately €2.2 billion 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. A downwards adjustment to total capital amounts to €1,014 million for non-available items. This restriction relates to intercompany relationships between Aegon Nederland N.V. and Optas Pensioenen.

E.1.2.1 Detailed breakdown eligible amount of own funds to cover the Solvency Capital Requirement and Minimum Capital Required

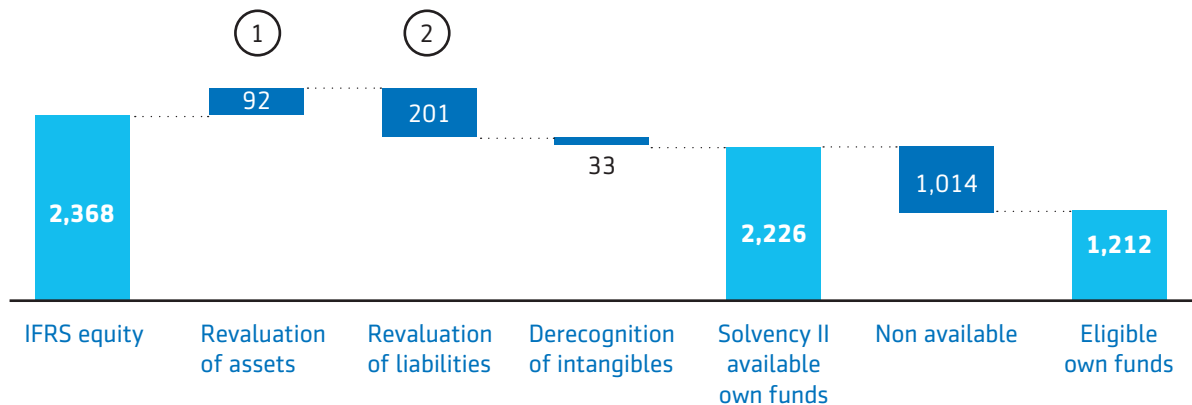
Eligible own funds to meet SCR of Optas amounts to approximately € 1.2 billion. This is shown in below mentioned table:

Eligible own funds to meet SCR and MCR

	Total Tier	U-Tier 1	Tier 2	Tier 3
Ordinary share capital- gross of own share	0	0		
Share premium account related to ordinary share capital	0	0		
Reconciliation reserve	2,226	2,226		
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	-/- 1,014	-/- 1,014		
Eligible own funds to meet SCR and MCR	1,212	1,212	0	0

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 €92 million mainly reflects mortgages and private loans held for general account and for index linked and unit linked which are valued at amortized cost under IFRS, and at market value under Solvency II.
2. Revaluation of liabilities in the amount of €201 million and mainly relates to technical provisions which are valued using different economic and non-economic assumptions in both frameworks.

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

SCR methodology based on the Solvency II PIM

Aegon uses a Solvency II Partial Internal Model (PIM) to calculate the solvency position of its insurance activities under Solvency II. Aegon's internal model was approved by the College of Supervisors as part of the Internal Model Application Process. A (partial) internal model is in general a better representation of the actual risk since this contains Optas specific modelling and sensitivities as opposed to industry-wide approximations included in the standard formula methodology. The purpose of the internal model is to better reflect the actual risk profile of Optas in the SCR. The most material risk types for Optas are therefore covered by the internal model as part of the Solvency II PIM, and less material risk types and business units are covered by the standard formula part of the Solvency II PIM.

Additional purposes for which Aegon Leven uses the Solvency II PIM include:

- Quantification of risk exposures in order to set adequate capital buffers;

- Monitoring of these exposures against the stated risk appetite and risk tolerance;
- Product pricing, where the cost of capital has a significant impact on overall costs;
- Assessment of the value of new business sold, in particular the value of options and guarantees contained therein; and
- Budgeting of capital requirements, Dividend Policy & Contingency Planning.

The following risk types are modelled under the internal model component of the Solvency II PIM:

Within the Mismatch risk category:

- Interest rate risk and interest rate volatility risk.

Within the Investment and counterparty risk category:

- Equity risk and equity volatility risk;
- Credit risk for fixed income securities including mortgages (both spread risk and default/migration risk).

Within the Underwriting risk category:

- Mortality and longevity risk;
- Mortgage prepayment risk.

All risk types that are not covered by the internal model are covered under the standard formula component of the Solvency II PIM. The risk measure used in all components of the Solvency II PIM is the 99.5% value at risk applied over a one-year time horizon. The standard formula SCRs and internal model SCRs are combined to calculate the Solvency II PIM SCR using Integration Technique 3 (IT3) as listed in annex XVIII.D of Commission Delegated Regulation (EU) 2015/35 (Delegated Acts).

Diversification within the Solvency II PIM SCR

Under Solvency II PIM, Optas calculates the diversification benefit across risk types. Within the standard formula components, diversification is determined following the prescribed correlation matrices.

Within the internal model component, diversification is calculated as follows: For each risk type a worst case shock is calibrated at the 99.5% confidence level over a one-year time horizon. These shocks reflect the adverse value change of the assets and liabilities over the time horizon including the amounts paid during the one year time horizon, as well as the change in present value of cash flows projections at the end of the projected time horizon. The combination of these adverse value changes are the own funds losses.

To calculate the total SCR and diversification, the own funds losses are determined not only at the 99.5% confidence level of the risk types, but at two million equally likely scenarios. This is a Monte Carlo simulation approach. These scenarios are generated using a scenario generator and a dependency structure, defining the dependency (correlation) between risk drivers based on market data and expert judgment. Each scenario contains values for risk drivers such as interest rates, equity returns and mortality levels.

In order to calculate the own funds losses in all these scenarios, Optas uses loss functions. These loss functions which are fitted using full valuations at several points (percentiles) of the distribution of the applicable risk type. For each of the two million scenarios, the own funds losses are summed over the risk types and business units under internal model to get the total own funds loss in the scenario. By ordering these scenarios based on their aggregated losses, the 99.5 percentile of the losses is determined. The total net SCR (after diversification) is then determined by the average loss in own funds of the 5,001 scenarios around the 99.5 percentile.

Diversification is defined as the difference between the sum of the standalone SCRs of the risk types and the total net SCR.

Diversification between the internal model and the standard formula components of the Solvency II PIM are calculated using Integration Technique 3 (IT3) in accordance with Solvency II regulation. IT3 describes how an implied linear correlation coefficient between the internal model and standard formula components is calculated. This correlation coefficient is then used to calculate the total Solvency II PIM SCR using a square root formula.

Data quality

Optas has implemented the Data Quality Policy of Aegon Group for the Solvency II reporting processes, including the required data directory and an explanation on the data criteria completeness, accurateness and appropriateness. Data used in the internal model originates from internal as well as external sources, for example:

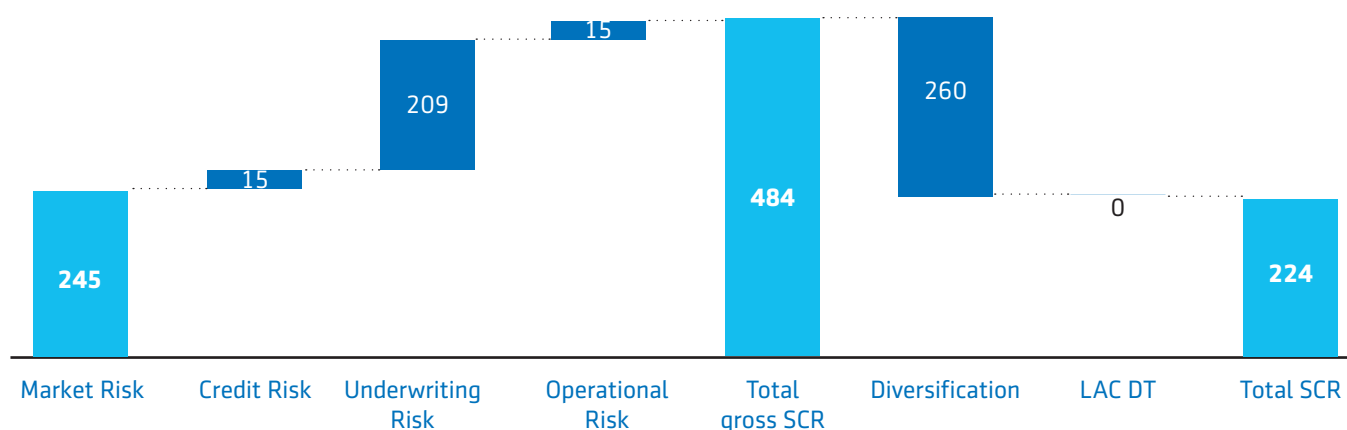
- Policy Data level detailing characteristics and coverage of individual insured;
- Data specifying the portfolio of assets, e.g. type of asset, amount, and maturity date.
- Data from external sources such as population mortality tables and prices of traded securities.

The internal model design aims to make optimal use of all available data in the stages of model design and execution. An assessment of the appropriateness of data usage forms part of the model validation process.

Composition of the SCR at year end 2016

The graph below provides an overview of the SCR by risk categories. 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 determined on the basis of the Standard Formula. Refer to chapter C on risk Profile for a further discussion on the SCR amounts by Risk Type.

As Optas is tax exempt, the LAC-DT factor is set to zero.

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 article 292(2)(g) of the Delegated Regulation:

Component MCR	Charge	Capital at Risk	MCR (€ million)
Technical Provisions for index-linked and unit-linked insurance, excluding the risk margin, net of reinsurance with a floor equal to zero	0.70%	725	5
Technical Provisions for all other life insurance, excluding the risk margin, net of reinsurance with a floor equal to zero.	2.10%	3,348	70
Capital at Risk by policy summed over for all life insurance policies	0.07%	2,211	2
Total			77

E.2.3. Material changes to the Solvency Capital Requirements and Minimum Capital requirement

The overall SCR has increased over 2016 mainly due to higher market risk.

There has been no material change to the MCR over 2016.

E.3. Use of duration-based equity risk sub-module in the calculation of the SCR

Optas 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

The main differences between the methodologies and assumptions of the Solvency II PIM and the standard formula are discussed by risk type below.

Market risk

The fixed income risk for bonds differs because Solvency II PIM shocks are calibrated on the basis of Optas' fixed income portfolio. In contrast to the standard formula, government bonds are shocked with a factor larger than 0. Furthermore, the Solvency II PIM makes use of a dynamic volatility adjustment approach within Optas, while the standard formula does not.

For mortgages, the Solvency II PIM contains a spread shock, while the standard formula implies a counterparty default risk shock.

Equity risk shocks are calibrated based on Optas' own portfolio. In addition, the equity exposures are also shocked for equity volatility risks.

Within Optas, property risk is calculated in accordance with the standard formula.

The Solvency II PIM results for interest rate risks differ from the standard formula results for the following reasons:

- The standard formula interest rate shock only considers a parallel shift in the interest rate curve, whereas the Solvency II PIM considers not only a parallel shift, but also a flattening and twisting of the interest rate curve;
- The Solvency II PIM interest rate curve shocks are calibrated based on historical market data;
- The Solvency II PIM assumes that the Ultimate Forward Rate (UFR) does not change in a shock scenario, while the standard formula interest rate shock assumes that the whole curve moves, including the UFR;
- In addition, the Solvency II PIM includes a capital requirement for interest rate volatility risk.

Underwriting risk

The Solvency II PIM for longevity and mortality risk differs from the standard formula as follows:

- The Solvency II PIM makes a distinction between a population mortality shock and an experience factor shock while the standard formula assumes a fixed decrease in all mortality rates; and
- The Solvency II PIM projects mortality rates by age and gender while the standard formula assumes the same shock for all ages and both genders.

For Optas, the Solvency II PIM includes pre-payment (lapse) risk on the mortgage portfolio.

Diversification

Diversification between the internal model and the standard formula components of the Solvency II PIM are calculated using IT3. This describes how an implied linear correlation coefficient between the internal model and standard formula components is calculated. This correlation coefficient is then used to calculate the total Solvency II PIM SCR using a square root formula. The standard formula makes use of correlation matrices to calculate the diversifications by risk module and on total level.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

During 2016, there were no instances in which the estimated Optas ratio was below the MCR and the SCR level. To ensure that Aegon maintains adequate solvency levels, actual and expected capital positions are monitored against capitalization zones that are defined in Optas' Capital Management policy. Several activities are performed to monitor and assess the future development of Aegon's solvency position, such as the annual Budget/Medium Term Plan process and periodic management reporting. Decisions to return capital to shareholders are based on solvency assessments that consider the impact of the decisions on the current and projected solvency position.

Any solvency position is subject to risks, and Optas therefore constantly monitors such risks. These are quantified to determine the impact on the current and the projected solvency position. The Capital Management policy provides actions that need to be performed as soon as the identified risks could cause the projected solvency ratio to fall within a particular capitalization zone.

E.6. Any other information

E.6.1. Global Systemically Important Insurer designation

On 3 November, 2015, Aegon Group was first designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). The FSB annually reviews the G-SII designation and Aegon Group continues to be designated at the time of publication of the Solvency and Financial Condition Report. Optas provides data to support its Global Parent Aegon N.V. in meeting the specific G-SII requirements.

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.

