Annual report 2017

Aegon Spaarkas N.V.

Aegon Spaarkas N.V.
Snekerkade 1
8911 AA Leeuwarden

Contents

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Report of the Board of Directors

1. General information

Aegon Spaarkas N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce of Leeuwarden under its registered address at Snekerkade 1, 8911 AA Leeuwarden with registration number KvK 30001360. Aegon Spaarkas N.V. (or Aegon Spaarkas) is a wholly owned subsidiary of Aegon Nederland N.V. in The Hague. The ultimate parent of the Aegon-group is Aegon N.V. in The Hague. Aegon Spaarkas is active in life insurance products, mainly tontine plans.

1.1. Purpose and mission statement

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

<u>Strategy of Aegon Spaarkas</u>

As part of the Aegon individual life service book, Aegon Spaarkas has a closed book strategy. The in-force portfolio is declining rapidly due to expiration and policies being lapsed. Aegon Spaarkas is still faced with legacy issues: potential claims related to alleged miss-selling of unit linked products. However, most of the material issues have been addressed through the steps that Aegon Spaarkas has initiated in recent years. The outstanding issues are comparatively minor and expected to be addressed in the next two years. The closed book portfolio and the legacy issues have resulted in the following key strategic pillars, in order of priority, for Aegon Spaarkas:

- Resolve outstanding issues with regard to legacy issues
- Strict cost control
- Implement initiatives to increase customer satisfaction

With regard to the first strategic principle we would like to highlight that we are analyzing and segmenting our portfolio on a continuous basis to see whether there are any specific client and/or product groups that require additional actions. As stated, over the last few years we have successfully implemented several, one sided, product improvements. We will continue doing so if and when appropriate. Also, we closely monitor court cases and rulings in order to assess their potential impact on our portfolio. Dealing with the legacy issue is our top priority for the service book.

The second strategic pillar reflects the fact that the size of our in force book is diminishing rapidly. As a result, we need to lower costs at a similar level. Long-term plans have been put in place to monitor this closely. Besides a reduction in workforce we also focus on lowering IT costs substantially.

Finally, without compromising on the two previous pillars Aegon Spaarkas intends to improve customer satisfaction/NPS scores further. These consist of e.g. improving processes in our back office, more friendly and transparent communication, training programs etc.

1.2. Main activities, products, services and geographic areas

Aegon Spaarkas, is incorporated and domiciled in the Netherlands with a life insurance portfolio of mainly tontine plans. Aegon Spaarkas operates from Leeuwarden.

1.3. Legal company and group structure

Aegon Spaarkas is a public limited liability company organized under Dutch law. Aegon Spaarkas is a wholly-owned subsidiary of Aegon Nederland, The Hague. It is a part of the Aegon Nederland group of insurance companies. Aegon N.V., which is a listed entity, is the ultimate parent company of Aegon Spaarkas.

1.4. Internal organizational structure

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

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

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

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

1.5. Employees

Aegon Spaarkas itself does not have labor contracts with employees, but is serviced by Aegon Nederland Related expenses are charged to Aegon Spaarkas.

1.6. Key elements of policy

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

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

1.7. Composition of the Board of Directors and gender diversity

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

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

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

1.8. Remuneration policy

The remuneration policy is centralized at Aegon Nederland level and therefore also applies to Aegon Spaarkas.

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

Aegon Nederland's remuneration policy applies to the Board of Directors, management teams, senior management and other employees of Aegon Nederland and complies with the applicable national and international regulations. The policy is in accordance with the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V. and has due regard for developments in society.

The remuneration policy is in line with the strategy, vision, core values and risk appetite of Aegon Nederland. 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 which are 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 long-term objectives.

The maximum variable remuneration for the statutory board members of Aegon Nederland N.V. and its subsidiaries that qualify as a bank or insurer is 20% of the fixed income and in 2017 was in total at target at 13,3% of the fixed income. In line with the Law on Remuneration Policies for Financial Institutions (Wet beloningsbeleid financiële ondernemingen, or 'Wbfo'), that has been in effect since February, 2015, the total variable remuneration of senior management (including members of the statutory board) does not exceed 20% of fixed income for the whole of Aegon Nederland. The total amount of variable compensation paid out in 2017 was EUR 2,5 million. In 2017, there were no individuals for which the total annual compensation paid out to was equal to or higher than EUR 1 million.

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

Variable remuneration is based on performance relating to present targets on the following three levels: (i) Aegon N.V., (ii) Aegon Nederland and (iii) personal. The targets are a mix of financial and non-financial performance criteria which are as objective as possible. The financial criteria were adjusted for estimated risks and cost of capital upon assessment of the actual performance.

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

The governance provisions in Aegon Nederland's remuneration policy state that the Supervisory Board is authorized to recover variable remuneration previously paid to members of the management team and senior management, if it was granted on the basis of inaccurate financial or other information ('claw back' clause). In 2017, there was no claw back of variable remuneration.

Governance

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

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

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

Application of policy
In 2017, there were no dismissals in the Management Team. Variable remuneration for the Management Team and other Identified Staff were paid 50% in cash and 50% in shares of Aegon N.V. In 2017, in accordance with Aegon Nederland's Remuneration policy, 40% of the 2016 variable remuneration was paid directly to members of the Board of Directors of Aegon Nederland and the remaining 60% was conditional. The 60% will be paid in three equal parts over a period of three years, unless an ex-post risk assessment should indicate reasons for lowering the amounts or not pay at all.

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

1.9. Regulation and supervision

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

DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions, and the conduct of business on financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector.

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

1.10. Business developments

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

2. Financial information

2.1. Developments during the year

The income before tax for 2017 was EUR 9.2 million, compared to EUR 4.9 million in 2016. In the following paragraphs specific items of the net result are further explained.

Revenues
The revenues have decreased from EUR 110 million to EUR 105 million, mainly due to lower premium income of EUR 14 million offset by higher investment income of EUR 9 million following favorable equity markets. The insurance portfolio of Aegon Spaarkas is shrinking, due to relatively high lapse rates and the lack of new production. Fee and commission income is stable because of higher fund values from which the asset management fees are derived.

Results from financial transactions
Results from financial transactions increased from EUR 116 million to EUR 139 million in 2017 due to higher net fair value gains on financial assets for account of policyholders because of favorable equity markets.

Policyholder claims and benefits
Claims and benefits fluctuates mainly as a result of volatile fair value changes on for account of policyholder financial assets. The policyholder claims and benefits in 2017 increased to EUR 219 million (2016: EUR 200 million). This is mainly caused by higher benefits following favorable equity markets, despite a shrinking portfolio.

Commissions and expenses
The commissions and expenses decreased with EUR 5 million, due to cost initiatives and lower expenses relating to customer compensations.

Shareholders' equity
Shareholders' equity at December 31, 2017 amounts EUR 250 million compared to EUR 245 million at year-end 2016. The increase is caused by net income over 2017 of EUR 7 million (2016: EUR 4 million) offset by a decrease of EUR 2 million in revaluation reserve relating to the Available for sale portfolio caused by shorter duration against fairly stable market interest rates and realizations (2016: increase of EUR 3 million).

Cash flows and funding
During 2017 the net cash flows amounted to EUR 9 million (2016: EUR 29 million negative). This is due to cash flows from operating activities. Aegon Spaarkas is funded with equity and at year-end 2017 had no significant other funding sources.

Circumstances that impact future income and results
The main drivers of future income and results are interest rate and other financial market developments. Furthermore, cost containment and developments in relation to customer compensations may impact net income significantly. Regarding the financial structure and ALM policy no major changes are expected.

2.2. Solvency II

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

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

Aegon Spaarkas N.V. is subject to prudential supervision of DNB.

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

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

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

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

	31-12-2017*	31-12-2016
Own Funds	212	225
Partial Internal Model SCR	44	51
Solvency II ratio*	479%	440%

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

The SCR of Aegon Spaarkas has decreased over 2017 mainly due to the implementation of approved major model changes to Aegon's PIM and positive market movements.

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

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

The Solvency ratios as disclosed in this section represent Aegon's estimates and are not final until filed with the regulator and subject to supervisory review. Aegon's factor for the loss absorbing capacity of deferred taxes (LACDT) in the Netherlands is 75%. The LAC DT factor of Aegon NL is assessed on a quarterly basis, following DNB guidance, while monitoring effects of upcoming corporate tax changes in the Netherlands and LAC DT related proposals in the SII regulation consultation paper of EIOPA. Should the loss absorbency of taxes factor be lowered with 25% than this would result in a 34% decrease (2016: 31% decrease) of the Solvency II ratio.

On the other hand, the lowering of UFR from 4,2% to 4,05% would result in limited impact on the Solvency II ratio because Spaarkas contains only run-off portfolio and the duration of liabilities is relatively short. The Solvency II capital ratio of Aegon Spaarkas N.V. does not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon Spaarkas in the past as the potential liability cannot be reliably quantified at this point. In addition, discussions are ongoing with respect to the interpretation/substantiation of certain elements in the technical provisions and SCR.

The capitalization of Aegon Spaarkas N.V. is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. The Solvency II SCR target range, which is a self-imposed target range, for Aegon Spaarkas N.V. is 155% - 205% (2016: 130 – 150%). As per December 31, 2017, the capitalization of Aegon Spaarkas N.V. is above this target range to serve as a buffer.

3. Main risks and uncertainties

3.1. General

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

3.2. Objectives

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

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

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

3.3. Governance framework and structure

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

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

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

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

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

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

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

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

3.3.1. Advising on risk-related matters

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

3.3.2. Supporting and facilitating

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

3.4. Challenging and monitoring

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

3.5. Lines of defense

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

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

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

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

3.6. Risk management 2017

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

3.7. Operational risks

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

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

3.7.1. Strategic risks

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

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

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

3.7.2. Regulatory and compliance risks

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

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

3.7.3. Reporting risk

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

3.7.4. Modeling risk

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

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

3.7.5. *Outsourcing risk*

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

3.7.6. *Information security risk*

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

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

3.7.7. *Credit risk*

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

3.7.8. *Equity market risk and other investment risks*

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

3.7.9. *Interest rate risk*

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

3.7.10. Liquidity risk

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

3.7.11. Underwriting risk

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

3.8. Internal Audit

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

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

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

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

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

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

3.9. Financial instruments

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

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

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

Aegon Nederland's Risk & Capital Committee, which meets at least once a month, determines and monitors the capital position, the balance sheet as well as the market value income statement. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, and to monitor the liquidity position of Aegon Spaarkas.

3.10. Pending litigation portfolio and product-related issues

KoersPlan

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

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

Unit-linked products
Generally speaking, there is still media, political and regulatory attention regarding unit-linked policies (beleggingsverzekeringen). Individual customers as well as policyholder advocate groups and their representatives continue to focus on the fees and charges included in products, as well as alleged transparency aspects. Aegon expects this to remain an issue for the industry for the foreseeable future. Exposure and attention will be stimulated by court cases. In September 2014, consumer interest group Vereniging Woekerpolis.nl filed a class action against Aegon Levensverzekering and Aegon Spaarkas in court. The claim was related to a range of unit-linked products which Aegon sold in the past and include products that already had been subject to litigation, such as KoersPlan. On June 28, 2017 the District Court of The Hague has rendered a final ruling which limited the scope to three products, Koersplan (tontine), Vermogensplan (tontine) and Fundplan (UL) and excluded all policies with a guarantee. The court upheld the principle that disclosures must be evaluated according to standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose the level of certain charges on a limited set of policies. According to the court these cost levels should be reasonable. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. Both The Vereniging Woekerpolis.nl and Aegon have filed an appeal against the ruling of the District Court in The Hague. Furthermore there are claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) and the District Courts, filed by individual customers regarding Aegon Levensverzekering unit-linked products that arguably include similar allegations. At the moment, Kifid is delaying the handling of complaints about the unit-linked policies (beleggingsverzekeringen), awaiting the rulings of the Kifid Appeal Committee.

4. Corporate Governance

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

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

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

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

<u>Governance principles</u>

The Governance principles for Insurers issued by the Dutch Association of Insurers was revoked on January 1, 2016. Aegon continues to subscribe to the importance of governance principles and will therefore continue to act according to the governance principles as are implemented within Aegon Nederland. Aegon Nederland also complies with other relevant governance guidelines and self-regulation by the Dutch Association of Insurers. Below, the most important elements of our governance principles are explained.

<u>Accountability</u>

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

<u>Supervisory Board</u>

Membership and expertise
The majority of the members of Aegon Nederland's Supervisory Board are formally independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (*Beleidsregel geschiktheid 2012*). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broad-based membership. In Aegon Nederland's view, the members' knowledge and experience complement each other. Aegon has set out in detail the Supervisory Board's duties in the Supervisory Board Charter. Aegon has an up-to-date profile of the Supervisory Board, further specifying and recording its vision on the membership. The profile is tailored to Aegon Nederland's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards.

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

The members have broad social and commercial backgrounds and experience. As members of Aegon Nederland's Supervisory Board and through other supervisory directorships, they have in-depth knowledge of the role and function of insurance companies and their stakeholders in society. Regarding decision making and supervision, the Supervisory Board balances the interests of all stakeholders, including customers, distribution partners and employees. Where relevant, this is recorded in the minutes and is part of the self-evaluation by the Supervisory Board.

Furthermore a Supervisory Board profile is available and if a vacancy arises, an individual profile is to be created. In addition to Aegon Nederland performing annual checks of individual critical abilities against the DNB's Suitability Matrix for Supervisory Boards, regular self-evaluations and permanent education programs are followed. If a vacancy arises for the position of chairman, an individual profile is drawn up which focuses on the Supervisory Board's and Aegon Nederland's requirements regarding expertise and experience in relation to the financial sector, familiarity with socio-economic and political culture and the social environments of Aegon Nederland's main markets.

Experience has shown that all members of the Supervisory Board are sufficiently available and accessible to perform their duties properly. The importance of this principle is underlined in the profile, the Rules of the Supervisory Board and the Aegon Nederland Governance Guide. Compliance is also checked in the regular self-evaluations.

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

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

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

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

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

Duties and working methods

The Supervisory Board's discussions on risk management decisions are prepared by the Risk & Audit Committee. The Risk & Audit Committee Charter was updated in 2017.

The members of the Aegon Risk & Audit Committee have adequate knowledge, experience and/or competences to allow for sound supervision of the financial aspects of risk management, financial reporting, internal control and audit.

Board of Directors

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

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

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

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

In its decisions, the Board of Directors takes into account Aegon Nederland's risk appetite. The Board considers whether or not a decision to be taken is within the risk appetite, thus ensuring a careful balance between its commercial objectives and the interests and the risks involved.

The CRO is the director of the risk management function (the Risk Management & Compliance department), which is organized as a second line of defense (see the Risk Management paragraph above). He is also a member of the Board of Aegon Nederland. In this capacity, the CRO is closely involved in all the decisions that have a material impact on Aegon Nederland's risk profile. The risk management function focuses on financial stability and the impact that systemic risks may have on Aegon Nederland's risk profile. The CRO reports hierarchically to the CEO and also has a direct reporting line to the Chairman of the Risk and Audit Committee of the Supervisory Board.

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

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

Duties and working methods
In its decision making, Aegon Nederland's Board of Directors carefully considers the interests of all parties concerned, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Nederland Code of Conduct.

Putting customers and their interests first is at the heart of our vision, strategy and day-to-day activities. It is an integral part of our thinking and runs through all operations at every level of the company. This means that employees with customer contacts are closely involved with the theme. There are special training programs on the theme and it is part of our recruitment policy.

In Aegon Nederland's vision, the company holds responsibility for people's financial awareness and development. Aegon Nederland strives to offer easily-understood solutions in genuine dialogue in order to enable customers to make conscious decisions about their financial future. Aegon Nederland wants to present matters as they are. We believe it is our responsibility to assist customers and explain things in a simple way. More detailed information on this vision can be found on the website (www.aegon.nl).

The customer comes first in our strategy. The strategy aims to carefully balance the interests of not only customers, but also of all Aegon Nederland stakeholders, including employees. Aegon Nederland believes that paying attention to the interests of all stakeholders is in the customer's interest.

The members of the Board of Directors act in a careful, expert and fair manner. They keep up to date with developments in legislation and regulations, partly through the permanent education program. All members of the Board of Directors took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations.

Integrity, care and putting customers' interests first are guiding principles for all Aegon Nederland employees which is reflected in the Code of Conduct and applies to all Aegon Nederland employees. The Conduct has been placed on:
(http://www.aegon.nl/overaegon/maatschappij/gedragscode/).

Since 2012, contracts of employment have included a specific reference to the Aegon Nederland Code of Conduct. By signing their employment contract, employees confirm that they have read and accept the codes of conduct applying at Aegon Nederland and will comply with the current and all future codes of conduct applicable at Aegon. Shortly after their appointment, all new recruits go through an e-learning module that uses questions and answers to introduce the Aegon Nederland Code of Conduct, the principles in it and the spirit in which it was drawn up.

5. Corporate social responsibility

5.1. General

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

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

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

5.2. Environment

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

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

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

5.3. Social

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

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

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

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

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

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

5.4. Economic

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

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

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

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

6. Outlook

6.1. Developments

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

The world is changing rapidly. Technological developments lead to new customer behavior. These changes in society and the market also have an impact on Aegon Spaarkas' business. As we have stressed in recent years, technological developments and the digitization of financial services are accelerating. The traditional financial institutions are starting to transform their businesses towards a new era. Addressing these developments is at the core of our strategy.

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

6.2. Post reporting date events and expectations

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

The Hague, 30 April, 2018

The Board of Directors,

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

Report of the Supervisory Board

1. General

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

The Supervisory Board was involved in the preparation of appointments and dismissals of members of the Board of Directors and discusses the company's quarterly results, accounting policies, internal control procedures and strategy. The Supervisory Board is involved in setting the remuneration of members of the Board of Directors, senior management and employees of the company. Among others, the Supervisory Board approves the general principles of the Aegon Nederland remuneration policies, periodically assesses the general principles of the remuneration policy and is responsible for the remuneration policy for the Board of Directors.

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

For each of the insurance subsidiaries of Aegon Nederland that are under supervision of De Nederlandsche Bank, e.g. Aegon Levensverzekering, Aegon Schadeverzekering, Aegon Spaarkas and Optas Pensioenen, an independent Supervisory Board has been in place as of 2011. These Supervisory Boards meet four times a year at regular intervals, simultaneously with the Supervisory Board of Aegon Nederland.

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

2. Subjects discussed during the meetings

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

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

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

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

4. Risk and Audit Committee

The Supervisory Board has formed a Risk and Audit Committee, whose members in 2017 were Mrs. Jansen Heijtmajer (chair) and Mr. Vink. In 2017, the Audit and Risk Committee met five times. The CEO, CFO and CRO (Mr. Edixhoven, Mr. Zomer and Mr Horstmann) attended meetings on behalf of Aegon Nederland, along with the internal independent Auditor, and managers of Capital Management, Financial Information Management & Reporting Office and the Actuarial and Compliance function holders (or their substitutes). On behalf of PricewaterhouseCoopers Accountants N.V., Mr. Rondhout and Mr. Vermeulen both attended quarterly meetings.

On the agenda for the regular quarterly meetings, standing items were (i) the financial results of the previous quarter, quarterly reports on (ii) capital management, and (iii) regulatory developments, supplemented with quarterly reports from (iv) Risk Management & Compliance, and (v) Internal Audit, and the PricewaterhouseCoopers Accountants N.V. quarterly reports. The Risk and Audit Committee and the Supervisory Board approved the audit plans of both Internal Audit and PricewaterhouseCoopers Accountants N.V., and discussed the Aegon Nederland Risk Appetite. Other topics discussed during 2017 included among others the annual reports, RSR, SFCR reports, developments related to Solvency II, Actuarial Function Holder Report, SOx controls and the Management Letter. The Risk and Audit Committee reported – partly through the minutes of its meetings – on its findings to the Supervisory Board.

5. Remuneration Committee

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

6. Members of the Supervisory Board

The Supervisory Board consisted of four members in 2017. Mr. G.T. Kepecs was reappointed in 2017 for another term of 4 years.

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

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

The Hague, 30 April, 2018

The Supervisory Board,

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

Financial Statements 2017 of Aegon Spaarkas N.V.

Statement of financial position

(before profit appropriation)

	Note	31-12-2017	31-12-2016
Amounts in EUR thousand			
Assets			
Cash and cash equivalents	5	33.537	24.469
Investments	6	215.468	240.201
Investments for account of policyholders	7	2.000.907	2.332.970
Derivatives	8	711	865
Long-term loans and group loans	9	119.610	5.000
Deferred expenses		-	71
Other assets and receivables	10	12.636	103.901
Total assets		**2.382.869**	**2.707.476**
Equity and liabilities			
Equity	11		
- Share capital		910	910
- Share premium		2	2
- Revaluation reserves		8.935	11.061
- Retained earnings		233.514	229.806
- Net income / (loss)		6.910	3.708
		250.271	**245.488**
Insurance contracts for account of policyholders	12	2.062.829	2.397.432
Derivatives	8	5.626	6.795
Deferred tax liabilities	14	5.002	6.481
Other liabilities and accruals	15	59.141	51.281
Total liabilities		**2.132.598**	**2.461.989**
Total equity and liabilities		**2.382.869**	**2.707.476**

Income statement

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Revenues			
Premium income	16	53.765	68.200
Investment income	17	43.786	33.367
Fee and commission income	18	8.269	8.917
Total revenues		**105.821**	**110.485**
Results from financial transactions	19	139.221	116.211
Total income		**245.042**	**226.696**
Charges			
Premiums to reinsurers	16	31	26
Policyholder claims and benefits	20	218.808	199.658
Commissions and expenses	21	16.565	21.514
Impairment charges / (reversals)	22	17	-80
Interest charges and related fees	23	408	635
Total charges		**235.829**	**221.753**
Income / (loss) before tax		**9.213**	**4.943**
Income tax	24	-2.303	-1.236
Net income / (loss)		**6.910**	**3.708**
Net income / (loss) attributable to the parent company		**6.910**	**3.708**

Statement of comprehensive income

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Net income		**6.910**	**3.708**
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	11.2	-1.067	5.512
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	11.2	-1.768	-2.151
Income tax relating to items that may be reclassified	11.2	709	-840
Total other comprehensive income for the period		**-2.126**	**2.521**
Total comprehensive income / (loss)		**4.784**	**6.228**
Total comprehensive income attributable to the parent company		**4.784**	**6.228**

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

Statement of changes in equity

Amounts in EUR thousand

2017

	Share capital	Share premium	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	910	2	11.061	229.806	3.708	245.488
Net income / (loss) prior year retained	-	-	-	3.708	-3.708	-
Net income / (loss) current year	-	-	-	-	6.910	6.910
Other comprehensive income / (loss)	-	-	-2.126	-	-	-2.126
Total comprehensive income / (loss)	**-**	**-**	**-2.126**	**3.708**	**3.202**	**4.784**
At December 31	**910**	**2**	**8.935**	**233.514**	**6.910**	**250.271**

2016

	Share capital	Share premium	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	910	2	8.541	221.868	7.938	239.259
Net income / (loss) prior year retained	-	-	-	7.938	-7.938	-
Net income / (loss) current year	-	-	-	-	3.708	3.708
Other comprehensive income / (loss)	-	-	2.521	-	-	2.521
Total comprehensive income / (loss)	**-**	**-**	**2.521**	**7.938**	**-4.230**	**6.228**
At December 31	**910**	**2**	**11.061**	**229.806**	**3.708**	**245.488**

Cash flow statement

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Income / (loss) before tax		**9.213**	**4.943**
Results from financial transactions	19	-139.221	-116.211
Amortization and depreciation		1.891	1.664
Impairment losses / (reversals)	22	17	-80
Adjustments of non-cash items		**-137.313**	**-114.627**
Insurance and investment liabilities for account of policyholders	12	-334.603	-298.779
Accrued expenses and other liabilities	15	95.125	-1.739
Accrued income and prepayments	10	926	-18.454
Changes in accruals		**-238.552**	**-318.972**
Purchase of investments (other than money market investments)	6	-79.154	-70.086
Purchase of derivatives	8	-	809
Disposal of investments (other than money market investments)	6	100.367	63.558
Disposal of derivatives	8	-7.915	-17.910
Net purchase of investments for account of policyholders	7	477.032	422.316
Additions of group loans	9	-114.610	-5.000
Redemption of group loans	9	-	8.000
Cash flow movements on operating items not reflected in income		**375.720**	**401.687**
Tax (paid) / received	24	-	44
Net cash flows from operating activities		**9.068**	**-26.924**

	Note	2017	2016
Redemption of group loans	15	-	-2.000
Net cash flows from financing activities		**-**	**-2.000**
Net increase / (decrease) in cash and cash equivalents		**9.068**	**-28.924**
Cash and cash equivalents at the beginning of the year	5	24.469	53.394
Cash and cash equivalents at the end of the year	**5**	**33.537**	**24.469**

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

	2017	2016
Interest received (excluding derivatives)	8.247	17.100
Interest paid (excluding derivatives)	408	635
Interest derivatives received / (paid)	-685	-1.699
Dividend received	36.731	17.954

Reconciliation of liabilities arising from financing activities

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

Notes to the financial statements

1. General information

Aegon Spaarkas N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce of Leeuwarden under its registered address at Snekerkade 1, 8911 AA Leeuwarden with registration number KvK 30001360. Aegon Spaarkas N.V. (or Aegon Spaarkas) is a wholly owned subsidiary of Aegon Nederland N.V. in The Hague. The ultimate parent of the Aegon-group is Aegon N.V. in The Hague. Aegon Spaarkas is active in life insurance products, mainly tontine plans.

2. Summary of significant accounting policies

2.1. Basis of presentation

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

The financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2017 is provided below in note 2.1.1 'Adoption of new IFRS accounting standards'.

The financial statements are presented in euro and all amounts are rounded to the nearest thousand unless otherwise stated. The consequence is that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred policy acquisition costs, policyholders claims and benefits, insurance guarantees, pension plans, corporate income taxes and the potential effects of resolving litigation matters. Until Medio 2016 Aegon Spaarkas applied fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS. Details are provided in note 2.7 'Derivatives' and note 8 'Derivatives'.

The financial statements of Aegon Spaarkas were approved by the Board of Directors and by the Supervisory Board on April 30, 2018. The financial statements will be put for adoption to the Annual General Meeting of Shareholders on April 30, 2018. The shareholders meeting can decide against adoption of the financial statements but cannot amend them.

2.1.1. *Adoption of new IFRS-EU accounting standards*

New standards and amendments to standards become effective at the date specified by IFRS-EU, but may allow companies to opt for an earlier adoption date. In 2017, the following amendments to existing standards issued by the IASB became mandatory, but are not currently relevant or do not significantly impact the financial position or financial statements:

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

2.1.2. *Future adoption of new IFRS-EU accounting standards*

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

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

IFRS 9 Financial Instruments

The IASB issued the complete version of IFRS 9 Financial Instruments in July 2014 which was endorsed by the European Union in November 2016. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 and all previous versions of IFRS 9. Under IFRS 9 Classification and Measurement, financial assets are measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are designated at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the impairment component, the IASB included requirements for a credit loss allowance or provision which should be based on expected losses rather than incurred losses.

Application of IFRS 9 is required for annual periods beginning on or after January 1, 2018. However, on May 18, 2017, the IASB published the final version of the IFRS 17 – Insurance Contracts standard. Prior to its finalization, the IASB issued an amendment to IFRS 4 – Insurance Contracts (the predecessor standard to IFRS 17) that provides for a qualifying insurer a temporary exemption that permits, but does not require, the insurer to apply IAS 39 Financial Instruments: Recognition and Measurement rather than IFRS 9 for annual periods beginning before January 1, 2021 (e.g., a temporary exemption of IFRS 9). The objective of the amendment is to address the temporary accounting consequences of the different effective dates of IFRS 9 and IFRS 17. This amendment was endorsed by the European Union in November 2017.

In order for an entity to be eligible for the temporary exemption it must have liabilities connected with insurance activities whose carrying value comprises either greater than 90% of the total carrying value of all liabilities or less than or equal to 90% but greater than 80%, and the insurer does not have significant activities unrelated to insurance. Aegon Spaarkas performed this analysis, and concluded that it meets the requirements for the temporary exception as > 90% of its liabilities are connected with insurance activities. As a result, Aegon Spaarkas will not implement IFRS 9 until January 1, 2021.

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

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard was endorsed by the European Union in September 2016. IFRS 15 has replaced IAS 18 Revenue, as well as other IFRIC and SIC interpretations regarding revenue unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The standard outlines the principles an entity shall apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Transition Resource Group (TRG). The amendments are intended to clarify the requirements in IFRS 15, not to change the standard. IFRS 15 and the amendments will be effective for Aegon Spaarkas on January 1, 2018, using either of two methods: a full retrospective approach with certain practical expedients or a modified retrospective approach with the cumulative effect of initially applying this standard recognized at the date of initial application with certain additional disclosures. Aegon Spaarkas has evaluated the impact that adoption of this standard is expected to have on the financial statements and came to the conclusion that this impact will be very limited because insurance revenue is not in scope of IFRS 15 and because the other types of revenue are already compliant with this standard. Since IFRS 15 will have very limited impact on the financial statements, Aegon Spaarkas chose to apply the modified retrospective approach as transition method.

IFRS 17 Insurance Contracts

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

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

2.2. Foreign exchange translation

Aegon Spaarkas' financial statements are presented in euro, which is Aegon Spaarkas' functional currency. The impact of foreign currency on the financial statements is considered immaterial as virtually all transactions take place in euro.

2.3. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon Spaarkas has a current legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

2.4. Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements.

Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

2.5. Investments

Investments comprise financial assets (excluding derivatives).

Financial assets, excluding derivatives are recognized on the trade date when Aegon Spaarkas becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the investment strategy of Aegon Spaarkas; and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Spaarkas designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments, that are not quoted in an active market and that Aegon Spaarkas 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.

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

Derecognition

A financial asset is derecognized when the contractual rights to the asset’s cash flows expire and when Aegon Spaarkas retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full without delay to a third party and either has transferred the asset and substantially all the risks and rewards of ownership, or has neither transferred nor retained all the risks and rewards but has transferred control of the asset.

Financial assets of which Aegon Spaarkas has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Aegon Spaarkas’ continuing involvement. If significantly all risks are retained, the assets are not derecognized.

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

Collateral

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

Securities lending and repurchase agreements

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

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

2.6. Investments for account of policyholders

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

2.7. Derivatives

2.7.1. Definition

Derivatives are financial instruments classified as held for trading assets of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, Aegon Spaarkas considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

2.7.2. Measurement

All derivatives recognized on the statement of financial position are carried at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible. Fair value changes are recognized in the income statement.

2.7.3. Hedge accounting

Until Medio 2016 Aegon Spaarkas applied fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU ‘carve out’ of IFRS. As of Medio 2016 Aegon Spaarkas stopped applying fair value hedge accounting. The cumulative base-adjustment at the date of de-designation is amortized over the remaining average duration of the underlying hedged item.

2.8. Deferred expenses

DPAC (Deferred Policy Acquisition Costs) relates to all insurance contracts as well as investment contracts with discretionary participation features and represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts. Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on factors such as expected gross profit margins. For all products, DPAC is assessed for recoverability at least annually as part of the liability adequacy test for each reporting period. The portion of DPAC that is determined not to be recoverable is charged to the income statement. DPAC is derecognized when the related contracts are settled or disposed of.

2.9. Other assets and receivables

Other assets and receivables include trade and other receivables. Other assets and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.10. Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired.

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that Aegon Spaarkas’ assessment of an issuer’s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Any of these situations could result in a charge against the income statement to the extent of the impairment charge recorded.

2.10.1. Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

2.10.2. Impairment of loans

Loans are impaired if there is objective evidence of impairment resulting from one or more historical events ('credit loss event'). The impairment loss is measured as the difference between the carrying amount and the present value of future cash flows excluding any credit losses incurred using the original effective interest rate. The carrying amount is reduced through an allowance account

Individually significant financial assets are first assessed separately for impairment. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment. Impairment losses recognized for loans can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized. For loans, the carrying amount after reversal cannot exceed what the amortized cost would have been at the reversal date, had the impairment not been recognized?

For the mortgage loan portfolio the periodical impairment assessment includes identification of payment difficulties and triggers that are likely to create future payment difficulties. Subsequent to the identification of impairment triggers, an estimation of the credit exposure, loss probability based on historical experience and future cash flows from eligible collateral is being made. Eligible collateral mainly consists of residential property, cash in deposit and guarantees given (e.g. NHG). For the determination of the impairment charge the eligible collateral at market value is corrected for historical recovery rates.

2.11. Equity

Share capital is stated at par value. The share premium reserve, where applicable, relates to capital contributions which have occurred since incorporation without issuing new shares. The revaluation reserves comprise unrealized gains and losses on available-for-sale investments, net of tax. Upon sale of available-for-sale securities, the realized result is recognized through the income statement. Upon sale of real estate held for own use, the cumulative revaluation is taken direct to retained earnings. In the event of impairments, the unrealized loss is recognized through the income statement.

Dividends and other distributions to holders of equity instruments are recognized directly in equity. A liability for dividends payable is not recognized until the dividends have been declared and approved.

2.12. Insurance contracts

Insurance contracts are accounted for under IFRS 4 – Insurance Contracts. In accordance with this standard, Aegon Spaarkas continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by IFRS 4 for standards effective subsequent to adoption. Aegon Spaarkas applies in general accounting policies for insurance liabilities to the extent that it was allowed under Dutch Accounting Principles. If any changes are made to current accounting policy for insurance contracts, these will be in accordance with IFRS 4.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by Aegon Spaarkas prior to the transition to IFRS and with consideration of changes to standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. The valuation methods are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

Insurance contracts are contracts under which Aegon Spaarkas accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. Aegon Spaarkas reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which Aegon Spaarkas has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and premiums have started being charged. The liability is derecognized when the contract expires, is discharged, disposed or cancelled. Substantially modified contracts are accounted for as an extinguishment of the original liability and the recognition of a new liability.

Insurance contracts are recognized as of the beginning of the coverage period. If the coverage period commences before all legal documents are signed and returned, the insurance contract shall still be recognized, if

a) the amount of revenue can be measured reliably:

The entity has agreed to the following with the other parties to the transaction:

- Each party's enforceable rights regarding the service to be provided and received by the parties;
- The consideration to be exchanged; and
- The manner and terms of settlement,

  From Aegon Spaarkas' point of view, the date of the offer would be the date Aegon Spaarkas agreed to the above. However, this is not necessarily the date at which both parties have agreed to the terms. This could be but is not limited to:
- A signed and returned offer;
- An acceptance email from the client;
- The receipt of first deposits

b) It is probable that the economic benefits associated with the transaction will flow to the entity.

In the unlikely event of an onerous contract, this contract is to be recognized at the earliest date of:

(a) the beginning of the coverage period or
(b) The date on which both parties have agreed to the terms (the same guidance as for profitable contracts applies).

2.12.1. Life insurance contracts for account of policyholders

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

2.12.2. Embedded derivatives

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

Guaranteed minimum benefits

Certain life insurance contracts, issued by Aegon Spaarkas, contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives. These guarantees are measured at fair value.

2.12.3. Shadow accounting

Shadow accounting allows that all gains and losses on investments to affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If interest rate movement resulting in an unrealized gain or loss triggers a shadow accounting adjustment to DPAC or the insurance liabilities, the corresponding adjustment is recognized through other comprehensive income in the revaluation reserve, together with the unrealized gain or loss.

2.12.4. Liability Adequacy Test with respect to life insurance contracts

At each reporting date the adequacy of the life insurance liabilities, net of DPAC, is assessed using a liability adequacy test.

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

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

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

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

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

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

2.13. Assets and liabilities relating to employee benefits

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

2.14. Tax assets and liabilities

Tax assets and liabilities are amounts payable to and receivable from Aegon N.V., since Aegon N.V. is the head of the tax group.

2.14.1. Current tax assets and liabilities

Corporate income tax assets and liabilities for current and prior periods are measured at the amount expected to be received from or paid to the taxation authorities, applying the tax rates that have been enacted or substantively enacted by the reporting date.

Aegon Spaarkas is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Spaarkas is jointly and severally liable for all tax liabilities of the entire tax group. Current taxes are settled in current account with the parent company.

2.14.2. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A deferred tax asset is recognized for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon Spaarkas deferred tax position at each reporting period to determine if it is probable that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning opportunities it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectations of Aegon Spaarkas concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in the income statement, other comprehensive income or directly in equity.

2.15. Other liabilities and accruals

Other liabilities and accruals are initially recognized at fair value plus transaction costs. They are then recognized at amortized cost using the effective interest rate method. A liability is derecognized when the financial obligation is discharged or cancelled. Unless stated otherwise, deferred interest and other accruals are recognized at (amortized) cost.

2.16. Contingent assets and liabilities

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

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

2.17. Premium income and premium outgoing reinsurance

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

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

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

2.18. Investment income

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

2.19. Fee and commission income

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

2.20. Policyholders claims and benefits

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

2.21. Results from financial transactions

Results from financial transactions include:

2.21.1. Realized gains and losses on financial investments

Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.

2.21.2. Net fair value change of derivatives

All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

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

Net fair value change on for account of policyholder financial assets at fair value through profit or loss includes the fair value movements of investments held for account of policyholders refer to note 2.6 'Investments for account of policyholders'. The net fair value change does not include interest or dividend income.

2.22. Commission and expenses

Employee expenses and other administration expenses incurred are allocated to the period to which they relate. Salaries, social security and pension contributions for staff employed by Aegon Nederland are recharged to Aegon Spaarkas as services rendered to Aegon Spaarkas. Provisions for retirement plans and other benefits payable to staff of Aegon Nederland are recognized in the financial statements of Aegon Nederland. Similarly, buildings and most of the other equipment used by Aegon Spaarkas are made available by Aegon Nederland and the associated costs are recharged.

Commission, staff and administration expenses incurred are allocated to the period to which they relate. Acquisition expenses are deferred to the extent that they are recoverable and subsequently amortized. See also note 2.8 'Deferred expenses'.

2.23. Interest charges and related fees

Interest charges and related fees include interest expense on loans and other borrowings. Interest expense on loans and other borrowings carried at amortized cost is recognized in the income statement using the effective interest method. Fees and commissions that form an integral part of the effective return on financial liabilities are recognized as an adjustment to the effective interest rate of the instrument.

2.24. Corporate income tax

Corporate income tax is calculated at the current rate on the pre-tax profits over the financial year, taking into account any temporary and permanent differences between the profit determination in the financial statements and the profit calculation for tax purposes. Taxes comprise deferred and current taxes on profit. Taxes on net income are recognized in the income statement, unless the taxes relate to items that are recognized directly in other comprehensive income. In the latter case, the taxes are also recognized in other comprehensive income.

2.25. Post reporting date events

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that post reporting date events are disclosed, but do not result in an adjustment of the financial statements themselves.

3. Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Those estimates are inherently subject to change and actual results will not could differ materially from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred policy acquisition costs (please refer to paragraph 2.8), policyholder claims and benefits (please refer to paragraph 2.20), insurance guarantees (please refer to paragraph 2.12), pension plans (please refer to paragraph 2.13), income taxes (please refer to paragraph 2.14) and the potential effects of resolving litigation matters (please refer to paragraph 2.16). Accounting policies that are critical to the financial statements presentation and that require complex estimates or significant judgment are described in the following sections.

3.1. Going Concern

Management estimates that the organization has the resources to continue the business for the foreseeable future. Management is not aware of any material uncertainties which could give rise to doubt the continuity of the business. The financial statements are therefore based on the assumption that the organization will continue in business.

3.2. Changes in estimates

During 2017 there were no significant changes in estimates.

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

The liability for life insurance contracts with guaranteed or fixed account terms is generally based on current assumptions or on the assumptions established at the inception of the contract. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows (including investment returns). To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity see also note 2.12.4 'Liability Adequacy Testing'.

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

The liability adequacy test uses a discount rate which converges linearly in 10 years to an Ultimate Forward Rate of 4.25% (2016: 4.25%) from the last liquid point. The uniform last liquid point is set at 30 years. The discount rate includes a liquidity spread. The rates used to discount the insurance liabilities on Aegon Spaarkas' statement of financial position are determined using discount rates as contractually agreed, mainly 3% and 4%. Insurance liabilities for risk of policyholders are generally shown at the balance sheet value of the related investments.

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

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

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

3.3.1. Actuarial and economic assumptions

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

Mortality tables

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

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

For the liability adequacy test Spaarkas uses best estimate assumptions regarding mortality (which take into account expected future changes in life expectancy: the Aegon prospective mortality table), morbidity, expenses, lapse, inflation and lapse.

Investment returns

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

Expenses

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

Lapses

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

Actuarial assumption and model updates

Assumptions are reviewed periodically, typically in the third quarter of the calendar year, based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions. Similarly, the models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology.

3.4. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Spaarkas of determining fair value and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between knowledgeable and willing market participants that are independent of each other and able to enter into the transaction at the measurement date under current market conditions (e.g. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability; or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability.

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

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon Spaarkas can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. Aegon Spaarkas maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and therefore less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or determined that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities; the derivation of fair value is more judgmental. An instrument is classified in its entirety as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. “Unobservable” in this context means that there is little or no current market data available from which to determine the price at which an at arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. The use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize the fair value hierarchy of Aegon Spaarkas, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modelled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

3.5. Post reporting date events

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

4. Risk management

4.1. Governance

The risk management of Aegon Spaarkas takes place at holding level and is executed by Aegon Nederland. The main objective of the risk management structure at Aegon Nederland is to protect stakeholders, including customers, shareholders and employees, against ongoing obstacles to achieving their aims. The Board of Directors and management recognize the importance of efficient and effective risk management systems.

Aegon Nederland has a risk management structure in line with the Internal Control Framework of Aegon N.V. The risk management function has been designed with specific attention to operating, financial and underwriting risks.

Aegon Spaarkas has its own Board of Directors and a Supervisory Board. The Board of Directors of the parent company participates in the Board of Directors of Aegon Spaarkas. Reports are made to the shareholder and the regulator in accordance with the terms of the license.

4.2. Capital management and solvency

Introduction
As from January 1, 2017 the Solvency II regulatory framework was introduced.

Please note that numbers and ratios related to Solvency II as disclosed in this paragraph represent Aegon Spaarkas' estimate and are not final until filed with the regulator and subject to supervisory review. Aegon Spaarkas' factor for the loss absorbing capacity of deferred taxes is 75%. This factor is assessed on a quarterly basis, following DNB guidance, while monitoring effects of upcoming corporate tax changes in the Netherlands and LAC DT related proposals in the SII regulation consultation paper of EIOPA. Should the loss absorbency of taxes factor be lowered with 25%pts, this would result in a 34%pts decrease of the Solvency II ratio. Should the loss absorbency of taxes factor be lowered with 25% than this would result in a 34% decrease (2016: 31% decrease) of the Solvency II ratio.

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

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

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

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

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

Adequate capitalization

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

As per December 31, 2017, Aegon Spaarkas' capital position is (in EUR million):

	31-12-2017*	31-12-2016
Own Funds	212	225
Partial Internal Model SCR	44	51
Solvency II ratio*	479%	440%

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

In the following table a reconciliation between the shareholder's equity under IFRS equity and the own funds under Solvency II is presented (in EUR million).

	31-12-2017*	31-12-2016
Shareholders' Equity (IFRS)	250	245
Revaluations	61	70
Own funds restrictions	-100	-90
Available own funds	212	225

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

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

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

Minimum regulatory solvency requirements

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

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

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

Capital management

Aegon Spaarkas N.V. is subject to legal restrictions on the amount of dividends it can distribute to its shareholder. Under Dutch law, the amount that is available to pay dividends consists of total shareholders' equity less the issued and outstanding capital and less the reserves required by law. The revaluation account and legal reserves cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

The ability of Aegon Spaarkas N.V. to pay dividends to Aegon Nederland is also constrained by the internal thresholds that Aegon set to adequately capitalize its subsidiaries. These levels exceed to the levels set by DNB and governed by DNB. Based on the capitalization level of the Aegon Spaarkas N.V., DNB is able to restrict and/or prohibit the transfer of dividends to Aegon Nederland.

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

The target range for Aegon Spaarkas N.V. is set at 155 – 205% (2016: 130 – 150%). The capitalization of Aegon Spaarkas N.V. is above this target range to serve as a buffer for the contingent liability which could potentially arise from unit-linked products sold in the past.

Capital quality

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

4.3. Product information

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

4.3.1. *Life insurance for account of policyholders*

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

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

Tontine plans

Tontine plans, which are now a closed book, are unit-linked endowment policies in which profit sharing is based on the tontine system. Policyholders can invest premiums in a range of Aegon funds. The main characteristic of a tontine system is that on the death of the insured, the balance is not paid out to the policyholder's estate but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. In general, new tontine plan series started at the beginning of each calendar year. If the policyholder dies before maturity, Aegon Nederland pays death benefit to the next of kin equal to the premiums paid plus 4% compound interest, with a minimum of 110% of the fund value during the first half of the contract period.

Unit-linked insurance

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

4.4. The risk management approach

4.4.1. IFRS sensitivities

Results of Aegon Spaarkas' sensitivity analysis are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each type of market risk, the analysis shows how net income and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon Spaarkas' regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon Spaarkas' accounting policies[1]. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analysis provided below.

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

The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on prudent assumptions. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and equity. Aegon Spaarkas has classified a significant part of its investment portfolio as ‘available-for-sale’, which is one of the main reasons why the economic shocks tested have a different impact on net income than on equity. Unrealized gains and losses on these assets are not recognized in the income statement but are recorded directly into the revaluation reserves in equity, unless impaired. As a result, economic sensitivities predominantly impact equity but leave net income unaffected.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon Spaarkas’ future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon Spaarkas’ future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analysis cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

The sensitivity analysis below address investments for general account and guarantees issued by Aegon Spaarkas. Investments for risk of policyholders are for the account and risk of third parties and do not lead to an increase in Aegon Spaarkas’ exposures, other than in the form of possible guarantees. See note 8 ‘Derivatives’ and note 13 ‘Guarantees’ in insurance contracts for more information on the guarantees issued.

4.4.2. Currency exchange rate risk

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

4.4.3. Interest rate risk

Aegon Spaarkas bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the liabilities can offset this risk. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

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

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

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

The following table shows interest rates at the end of each of the last five years. For more information on derivatives, see note 4.4.9 'Derivatives risk'.

<u>Interest rates at the end of each of the last five years</u>

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

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

Parallel movement of yield curve	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	-1.062	-6.789	1.266	-5.052
Shift down 100 basis points	1.509	8.003	-1.544	5.656

A downward shock of 100 basis points would have a positive effect on the market value of investments and therefore on equity. Just as in prior years the headroom in the liability adequacy test is sufficient to absorb the impact of a downward shock in interest rate. Aegon Spaarkas invests in mortgages and until the third quarter of 2016 hedge accounting has been applied to account for market value movements in the mortgage portfolio and eliminate interest rate sensitivity. The market value movements of the mortgage portfolio are mainly hedged with interest rate swaps. A shock in interest rate will lead to a small impact on net income as the floating legs of these interest rate swaps are not hedged.

4.4.4. Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon Spaarkas typically bears the risk for investment performance which is equal to the return of principal and interest. Aegon Spaarkas is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturn of the economy, downturn in real estate values, operational failure and fraud. During financial downturns, Aegon Spaarkas can incur defaults or other reductions in the value of these securities and loans, which could have a materially adverse effect on Aegon Spaarkas' business, results of operations and financial condition. Investments for account of policyholders are excluded as the policyholder bears the credit risk associated with the investments.

The table that follows shows the maximum exposure of Aegon Spaarkas to credit risk from investments in general account financial assets as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 26 'Commitment and contingencies' and 27 'Transfers of financial assets' for further information on capital commitments and contingencies and on assets pledged, which may expose Aegon Spaarkas to credit risk.

Positions for general account in the balance sheet

2017 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received						Net exposure
		Cash	Real estate	Guarantees**	Master netting agreement	Surplus collateral	Total	
Debt securities	154.115	-	-	-	-	-	-	154.115
Mortgage loans*	43.892	1.829	53.120	901	-	-14.174	41.677	2.215
Private loans	11.729	-	-	-	-	-	-	11.729
Other loans	955	-	-	-	-	-	-	955
Derivatives with pos. values	711	720	-	-	-	-9	711	-
Long-term loans and group loans	119.610						-	119.610
Total	**331.011**	**2.549**	**53.120**	**901**	**-**	**-14.183**	**42.388**	**288.623**

*The base-adjustment of EUR 5 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

2016 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received						Net exposure
		Cash	Real estate	Guarantees**	Master netting agreement	Surplus collateral	Total	
Debt securities	171.189	-	-	-	-	-	-	171.189
Mortgage loans*	48.503	1.798	52.771	1.866	-	-12.769	43.667	4.837
Private loans	13.532	-	-	-	-	-	-	13.532
Other loans	1.583	-	-	-	-	-	-	1.583
Derivatives with pos. values	865	-	-	-	139	-	139	726
Long-term loans and group loans	5.000						-	5.000
Total	**240.672**	**1.798**	**52.771**	**1.866**	**139**	**-12.769**	**43.806**	**196.866**

*The base-adjustment of EUR 4 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

Debt securities

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

Mortgage loans

The real estate collateral for mortgage loans comprises mainly of residential properties. The collateral received for residential mortgages is measured as the foreclosure value which is indexed periodically.

Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

A substantial part of Aegon Spaarkas' Dutch residential mortgage portfolio benefits from guarantees by a Dutch government-backed trust (Stichting Waarborgfonds Eigen Woning) through the Dutch Mortgage Guarantee program (NHG). These guarantees cover all principal losses, missed interest payments and foreclosure costs incurred upon termination and settlement of defaulted mortgage loans when lender-specific terms and conditions of the guarantee are met. When not fully met, the trust may pay claims in part or in full, depending on the severity of the breach of terms and conditions. For each specific loan, the guarantee amortizes in line with an equivalent annuity mortgage. When the remaining loan balance at default does not exceed the amortized guarantee, it covers the full loss under its terms and conditions. Any loan balance in excess of this decreasing guarantee profile serves as a first loss position for the lender. For NHG-backed mortgage loans originated after January 1, 2015, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

The 'surplus collateral' column represents the surplus value of individual mortgage loans (where the value of the real estate is exceeds the value of the mortgage loan) as Aegon Spaarkas is not entitled to this part of the collateral.

Derivatives

The master netting agreements column in the table relates to derivative liability positions which are used in Aegon's credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

Collateral

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

Credit risk management

Losses as a result of credit risk are a natural part of investing in fixed-income securities. The amount of and compensation for this risk are related. A significant management measure to avoid excessive credit risk is to diversify and limit exposure to individual issuers.

Aegon Spaarkas operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are set by Aegon N.V. and also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon Spaarkas' internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. In 2017 there have been no violations of the Credit Name Limit Policy. The policy is reviewed regularly.

During 2017 there has been one breach regarding the CNLP, where for one counterparty the CNLP limit of EUR 135 million was exceeded by EUR 60 million. This breach was the result of an internal downgrade of the counterparty, which led to a lower limit. Subsequently, the exposure was reduced to be in line with this new lower limit. This breach, which was resolved within the quarter, was reported to the local Risk & Capital Committee (RCC) and did not require reporting to the Global RCC.

The ratings distribution of the general account investments is presented in the table in note 4.4.5 'Credit rating'.

Aegon Spaarkas' level long-term counterparty exposure limits, are as follows:

in EUR million	Limit 2017	Limit 2016
AAA	270	270
AA	270	270
A	200	190
BBB	135	125
BB	75	75
B	38	38
CCC or lower	15	15

The limits in this table exclude sovereign exposures that are rated A or above. For these exposures Aegon N.V. has set limits which are only applicable and reported at a consolidated Aegon N.V. level[2]. Sovereign exposures (regardless of rating) that are issued by the government of the functional currency of the Regions' business and also owned in that currency and sovereign exposures that are rated AAA by all three major agencies (S&P, Fitch and Moody's) are exempt from the policy.

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

4.4.5. *Credit rating*

The ratings distribution of general account portfolios of Aegon Spaarkas, including reinsurance assets, is presented in the next table, organized by rating category and broken out by assets which are valued at fair value and assets which are valued at amortized cost. Aegon Spaarkas maintains a rating hierarchy that is closely aligned with the CNLP as maintained within Aegon N.V. Under the CNLP a composite rating is used, which is based on a combination of the ratings of the constituents mentioned. The rating used is the lower of the external rating and the internal rating.

Investments for general account by rating

2017	Amortized cost	Fair value	**Total 2017**
AAA	11.729	57.741	69.470
AA	-	36.706	36.706
A	-	35.983	35.983
BBB	-	24.106	24.106
CCC or lower	-	290	290
Assets not rated	49.624	-	49.624
Total on balance credit exposure	**61.353**	**154.826**	**216.179**
Of which past due and / or impaired assets	594	-	594

2016	Amortized cost	Fair value	**Total 2016**
AAA	13.532	75.720	89.252
AA	-	38.955	38.955
A	-	18.398	18.398
BBB	-	37.659	37.659
BB	-	1.322	1.322
Assets not rated	55.479	-	55.479
Total on balance credit exposure	**69.012**	**172.054**	**241.065**
Of which past due and / or impaired assets	1.044	-	1.044

The ‘Assets not rated’ category relates to equities and derivatives (with positive value) at fair value and other financial assets at amortized cost (mainly mortgages and policy loans).

4.4.6. *Credit risk concentration*

The table that follows presents specific credit risk concentration information for general account financial assets.

	2017	2016
ABSs- Collateralized Debt Obligations (CDOs)	5.468	19.327
ABSs- Other	-	124
Residential mortgage backed securities (RMBSs)	25.545	25.480
Total investments in unconsolidated structured entities	**31.013**	**44.931**
Financial - Banking	4.014	4.025
Financial - Other	2.935	1.894
Industrial	49.437	47.261
Utility	3.411	7.752
Sovereign exposure	63.305	65.325
Total	**154.115**	**171.189**
Of which past due and / or impaired assets	-	-

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

	2017	2016
Apartment	8.661	9.825
Other commercial	175	178
Residential	35.055	38.500
Total	**43.892**	**48.503**
Of which past due and / or impaired assets	573	1.023

Fair value of the mortgage loan portfolio:	2017	2016
Fair value mortgage loans	48.648	53.380
The LTV was approximately	81,9%	89,2%
The part of the portfolio that is government guaranteed	56,3%	52,9%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,4%	0,4%
Impairments (reversals) during the year	17	79

Unconsolidated structured entities

Aegon Spaarkas' investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented in the line item 'Investments' of the statement of financial position. Aegon Spaarkas' interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Spaarkas does not have loans, derivatives or other interests related to these investments. The maximum exposure to loss for these investments is therefore equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon Spaarkas invests primarily in senior notes. Additional information on credit ratings for Aegon Spaarkas' investments in unconsolidated structured entities are disclosed in the sections that describe per category of debt securities the composition and impairment assessments. The composition of the structured entities portfolios of Aegon Spaarkas are widely dispersed looking at the individual amount per entity, therefore Aegon Spaarkas only has non-controlling interests in unconsolidated structured entities.

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

2017	Number of entities	Carrying amount
EUR 0 < 10 million	13	31.013
At December 31	**13**	**31.013**

2016	Number of entities	Carrying amount
EUR 0 < 10 million	28	34.750
> EUR 10 < 25 million	1	10.181
At December 31	**29**	**44.931**

Aegon Spaarkas has limited investments in unconsolidated structured securities (such as ABSs). These unconsolidated structured securities are presented in the line item "Investments" of the statement of financial position.

For unconsolidated structured entities in which Aegon Spaarkas has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflect the carrying values recognized in the statement of financial position of Aegon Spaarkas' interests in unconsolidated structured entities. Aegon Spaarkas did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

4.4.7. Past due and impaired financial assets

The tables that follow provide information on financial assets which are past due or impaired. A financial asset is past due when a counterparty has failed to make a payment when it was due under the contract. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Aegon Spaarkas takes the following factors into account when deciding whether to impair financial assets:

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

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

At year-end, no collateral, except that for mortgage loans, was held for financial assets which were past due or which had undergone individual impairment. The carrying amount of the assets that are (partly) impaired is:

Impaired financial assets

	2017	2016
Mortgage loans	573	894
Other	22	21
Total	**594**	**914**

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 24 thousand (2016: EUR 40 thousand).

Shares

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

Debt securities

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

4.4.8. *Equity market risk and other investments risk*

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

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

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

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

Sensitivity analysis of net income and equity to equity markets

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

	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Equity increase 10%	-6.206	-6.206	-6.246	-6.246
Equity decrease 10%	6.161	6.161	6.169	6.169
Equity increase 20%	-12.447	-12.447	-12.553	-12.553
Equity decrease 20%	12.272	12.272	12.237	12.237

Aegon Spaarkas uses derivatives to lower Solvency II capital requirements for 'Equity Risk' leading to a reversed sensitivity of net income and equity for changes in equity markets. Equity sensitivity is in line with 2016.

4.4.9. Derivatives risk

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

Aegon Spaarkas operates a policy to monitor the use of derivatives. This policy sets out the control, authorization, implementation and monitoring requirements for using these instruments and also stipulates the necessary credit risk limiting actions using derivatives. In general, credit risk with derivatives is reduced by collateral requirements in the contract.

4.4.10. Liquidity risk

Liquidity risk is inherent in much of Aegon Spaarkas' activity. Each asset purchased and liability assumed has its own liquidity characteristics. Although most liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement, some can be called on demand. In normal circumstances, a significant proportion of the investment portfolio can be quickly converted into liquid assets but some assets, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises are not highly liquid. If Aegon Spaarkas requires more than the normal amount of cash at short notice, it may have difficulty selling these investments at attractive prices or in a timely manner.

Aegon Nederland and its insurance subsidiaries operate a liquidity risk policy that focuses on holding sufficient highly liquid assets so that liquidity requirements can be met both in normal market conditions and in extreme situations resulting from unforeseen circumstances.

Aegon Spaarkas receives premiums from policyholders and, in exchange, is required to make payments at a later time if certain conditions are met. The amounts received are invested primarily in fixed-income assets. Investments in less liquid assets may lead to an increase in expected income from the investment portfolio, but are more difficult to convert into cash if an unexpected payment has to be made to a policyholder or contract holder. Internal liquidity tests are designed to quantify this risk and ensure that there is sufficient liquidity even under extreme conditions. The aim of the internal liquidity test is to compare the liquidity requirement against the amount available in a number of scenarios.

The liquidity position is tested in the following scenarios:

1. Base scenario, assuming current market conditions; this is the 'business as usual' situation.
2. Stressed liquidity scenario, in which both liabilities and assets are stressed.

The stressed liquidity scenario is described below.

Although most liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement, some can be called on demand.

In normal circumstances, a significant proportion of the investment portfolio can be quickly converted into liquid assets but some assets, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises are not highly liquid. If Aegon Spaarkas requires more than the normal amount of cash at short notice, it may have difficulty selling these investments at attractive prices or in a timely manner.

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

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

Available liquidity
Available liquidity is determined by modelling the asset cash flows. These include but are not limited to:
- Contractual repayments and coupon payments;
- Expected advance payments on certain categories of assets, such as early repayment of mortgage loans;
- Expected extensions of maturity on certain categories of assets;
- Sales proceeds on assets taking into account a maximum haircut of 1% compared with the current mid-rate.

Some cash flows are fixed and/or highly probable, while others depend on the specific market conditions involved in the scenarios. For example, it is assumed in the stresses liquidity scenario that assets other than highly liquid sovereign or corporate bonds which are explicitly and fully guaranteed by the local authorities cannot be sold in the first 6 months.

Required liquidity
The required liquidity is computed by modelling the cash flows from liabilities. These include but are not limited to:
- Contractual repayments at maturity;
- Benefits and claims;
- Full or partial withdrawal of assets at call;
- Use of policy loans;
- Periodic premium payments and potential changes in them;
- New business activities.

For liabilities too, some cash flows are fixed and stable but most will vary considerably when a different liquidity scenario is applied. It is expected there will be little new commercial activity if Aegon Spaarkas' rating is cut and the situation in the financial market deteriorates. The amount of cash provided as collateral for some derivative transactions will then also increase.

Results of the coverage ratios
Aegon Spaarkas holds EUR 63 million (2016: EUR 65 million) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The before mentioned amounts are based upon Aegon Spaarkas internally used definitions when testing the liquidity.

The coverage ratio is calculated after modelling the expected cash flows for assets and liabilities for each period of up to 2 years (2016: 2). The results of the coverage ratio, available liquidity divided by the required liquidity, show that Aegon Spaarkas had sufficient liquidity in different scenarios and for all tested periods at year-end 2017.

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

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

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Spaarkas has to assume that notice is given immediately and the repayment is presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, if the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date to manage the liquidity risk arising from financial liabilities, Aegon holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. For this reason, Aegon believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

2017	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Other financial liabilities	46.848	9.408	2.685	148	51	59.141
Total	**46.848**	**9.408**	**2.685**	**148**	**51**	**59.141**

2016	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Other financial liabilities	6.838	44.062	102	163	116	51.281
Total	**6.838**	**44.062**	**102**	**163**	**116**	**51.281**

Expected undiscounted cash flows relating to insurance and investment contracts

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

Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with Aegon Spaarkas' historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

The liability amount in the financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in note 0 'Insurance contracts for account of policyholders'.

2017	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Insurance contracts for account of policyholders	363.149	687.383	530.876	493.649	2.075.057
Total	**363.149**	**687.383**	**530.876**	**493.649**	**2.075.057**

2016	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Insurance contracts for account of policyholders	470.450	884.325	501.400	509.419	2.365.594
Total	**470.450**	**884.325**	**501.400**	**509.419**	**2.365.594**

Maturity analysis – derivatives (contractual cash flows)

The table below shows the liquidity analysis for derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

For gross settled derivatives, cash flows are presented in the table below for both the ‘paying leg’ and the ‘receiving leg’. The credit risk on the ‘receiving leg’ is mitigated by collateral and ISDA ‘master netting’ agreements as explained for ‘credit risk’.

This table includes all financial derivatives regardless of whether they have a positive or a negative value. For interest rate derivatives only cash flows related to the ‘paying leg’ are taken into account for determining the gross undiscounted cash flows.

2017	< 1 year	Total 2017
Cash inflows	-	-
Cash outflows	-	-

2016	< 1 year	Total 2016
Cash inflows	898	898
Cash outflows	-473	-473

There are no cash in- and outflows in 2017. Spaarkas no longer hedges mortgages and there is no cash flow from the remaining fee hedge derivatives until expiration date, which cannot be feasibly estimated until the expiration date.

4.4.11. Underwriting risk

General information

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

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

Aegon Spaarkas monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. Aegon Spaarkas' business units also perform experience studies for underwriting risk assumptions, comparing Aegon Spaarkas' experience to industry experience as well as combining Aegon Spaarkas' experience and industry experience based on the depth of the history of each source to Aegon Spaarkas' underwriting assumptions. Where policy charges are flexible in products, Aegon Spaarkas uses these analysis as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon Spaarkas also has the ability to (partly) reduce expense levels over time, thus mitigating unfavorable expense variation.

	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
20% increase in lapse rates	228	228	9	9
20% decrease in lapse rates	-251	-251	-9	-9
10% increase in mortality rates	8	8	409	409
10% decrease in mortality rates	-8	-8	-464	-464

<u>Notes to the table</u>
Underwriting shocks have, based on the nature of the Spaarkas insurance portfolio, not a material impact on equity and net income. Therefore, in line with prior year, no additional disclosure is given to explain the sensitivities.

4.4.12. Modelling risk

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

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

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

4.4.13. Other risks

Legislation and regulation

Aegon Spaarkas' insurance activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation of insurance products may affect Aegon Spaarkas' products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Spaarkas' claims exposure on existing products. Additionally, new or amended legislation or regulations may be more restrictive or result in higher costs than lead to higher costs than is currently the case.

Legal proceedings

Aegon Spaarkas is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Moreover, certain groups encourage others to bring lawsuits in respect of products. Aegon Spaarkas has established litigation policies to deal with claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Spaarkas will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability. For more details refer to note 26.2 'Legal and arbitrary proceedings, regulatory proceedings and actions'.

5. Cash and cash equivalents

	2017	2016
Cash on hand and balances with banks	33.537	4.529
Short term bank deposits	-	19.940
Total	**33.537**	**24.469**

The carrying amounts disclosed reasonably approximate the fair values at year-end. These cash items are not subject to restrictions.

6. Investments

Investments for general account comprise financial assets, excluding derivatives. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 25 ‘Fair value of assets and liabilities’.

	Note	2017	2016
Available-for-sale financial assets (AFS)	6.1	154.115	171.189
Loans (amortized cost)	6.1	61.353	69.012
Total investments for general account		**215.468**	**240.201**

6.1. Financial assets, excluding derivatives

2017	AFS	Loans	Total	Fair value
Debt securities	154.115	-	154.115	154.115
Mortgage loans	-	48.669	48.669	48.648
Private loans	-	11.729	11.729	12.075
Policy loans	-	865	865	865
Other	-	91	91	91
At December 31	**154.115**	**61.353**	**215.468**	**215.793**

2016	AFS	Loans	Total	Fair value
Debt securities	171.189	-	171.189	171.189
Mortgage loans	-	53.897	53.897	53.380
Private loans	-	13.532	13.532	13.973
Policy loans	-	1.493	1.493	1.493
Other	-	90	90	90
At December 31	**171.189**	**69.012**	**240.201**	**240.125**

	2017	2016
Current	13.958	20.413
Non-current	201.510	219.788
Total financial assets, excluding derivatives	**215.468**	**240.201**

6.2. Loans

Loan allowance account
Movements on the loan allowance account during the year were as follows:

	2017	2016
At January 1	459	540
Addition charged to income statement	17	-
Reversal to income statement	-	-80
Amounts written off	-27	-2
At December 31	**449**	**459**

7. Investments for account of policyholders

Investments for account of policyholders comprises financial assets held by investment funds to meet obligations to third parties. Investment returns on these assets are passed on to the policyholder.

The fees for managing these investments are included in note 18 ‘Fee and commission income’. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 25 ‘Fair value of assets and liabilities’.

	2017	2016
Shares	1.468.279	1.703.895
Debt securities	186.554	266.729
Mortgage loans	31.264	18.222
Other financial investments	17.524	12.121
Cash and cash equivalents	297.285	332.002
	2.000.907	**2.332.970**

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

8. Derivatives

	Derivative asset		Derivative liability	
	2017	2016	2017	2016
Derivatives held as an economic hedge	711	865	-	139
Bifurcated embedded derivatives	-	-	5.626	6.656
Total	**711**	**865**	**5.626**	**6.795**

	2017	2016
Current	711	726
Non-current	-5.626	-6.656
Total net derivatives	**-4.915**	**-5.930**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 25 ‘Fair value of assets and liabilities’.

Aegon Spaarkas uses derivative instruments as a part of its asset liability management strategy: the risk management of all assets and liabilities. They may relate to an existing asset or liability or a future reinvestment risk. Derivatives are entered into for the purpose of economic hedges. In all cases, they are in accordance with internal risk guidelines and are closely monitored for continuing compliance with these guidelines.

The main types of derivatives used for this are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures. For more information on the guarantees refer to note 13 ‘Guarantees’. Embedded derivatives that are not closely related to the host contracts have been bifurcated and are recorded at fair value in the statement of financial position, along with derivatives not used as hedges. These bifurcated embedded derivatives are embedded in unit-linked insurance contracts in the form of guarantees for minimum benefits.

Aegon Spaarkas’ fair value hedges consisted of interest rate swaps that were used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. In 2016 Aegon Spaarkas changed its risk management policy and decided to take on more interest rate risk, in order to economically offset the interest rate risk on the insurance liabilities. This has resulted in a de-designation of all fair value hedge accounting applied to these mortgage portfolios as of that date. The cumulative base adjustment at the de-designation was EUR 6 million. This amount is amortized over the weighted average duration (9 years) of the mortgage portfolio to which hedge accounting was applied at the date of de-designation.

9. Long-term loans and group loans

	2017	2016
Loan Aegon Derivatives N.V.	4.610	-
Loan Aegon Nederland N.V.	100.000	-
Loan Aegon Levensverzekering N.V.	15.000	5.000
At December 31	**119.610**	**5.000**
current	4.610	-
non-current	115.000	5.000
Total	**119.610**	**5.000**

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

During 2017 Aegon Spaarkas and Aegon Nederland agreed to replace the current account position with a loan of EUR 100 million to be repaid in 2026, with an interest rate of 6 months Euribor + 1.42 bps. The loan with Aegon Levensverzekering was increased with EUR 10 million to EUR 15 million at yearend 2017. The group loan related to Aegon Derivatives relates to collateral received for derivatives.

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

10. Other assets and receivables

	Note	2017	2016
Receivables	10.1	10.735	101.459
Accrued income	10.2	1.901	2.442
Total		**12.636**	**103.901**

10.1. Receivables

	2017	2016
Investment debtors	-	1
Receivables from policyholders	10.735	11.094
Current account with group companies	-	90.338
Other	-	25
Total	**10.735**	**101.459**
Current	10.735	101.459
Non-current	-	-
Total	**10.735**	**101.459**

The decrease in current account with group companies relates to the replacement of the current account position with a group loan with Aegon Nederland. Refer to note 9 ‘long-term loans and group loans’. The carrying amounts disclosed reasonably approximate the fair values at year-end.

10.2. Accrued income

	2017	2016
Accrued interest	1.901	2.425
Prepaid expenses	-	17
At December 31	**1.901**	**2.442**

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

11. Equity

	2017	2016
Share capital	910	910
Share premium	2	2
Revaluation reserves	8.935	11.061
Retained earnings	233.514	229.806
Net income / (loss)	6.910	3.708
Total	**250.271**	**245.488**

11.1. Share capital

	2017	2016
Authorized share capital	4.500	4.500
Not issued	3.590	3.590
	910	**910**

The authorized share capital is EUR 4.5 million, divided into 9,000 shares of EUR 500 nominal value each, of which 1,820 shares have been issued and fully paid. There have been no changes since the previous financial year. Aegon Spaarkas paid no dividend to Aegon Nederland in 2017 and 2016.

Under Dutch law the amount that is legally available to distribute as dividend to the shareholder consists of the amount that is available after deduction of the amount of the outstanding share capital (both the paid-in and the not paid-in amount on the share capital) and the amount equal to the legal and statutory reserves.

Furthermore, Aegon Spaarkas may cancel distributions of dividend where there is non-compliance with the solvency capital requirement or the distribution of dividend would lead to non-compliance with the solvency capital requirement. In such circumstances, a distribution of dividend may only take place if (i) DNB has exceptionally waived the cancellation of dividends, (ii) the distribution would not lead to a further deterioration of the solvency position of the insurance subsidiary and (iii) the minimum capital requirement is still complied with after the distribution is made.

11.2. Revaluation reserves

	2017	2016
At January 1	11.061	8.541
Gross revaluation	-1.067	5.512
Net (gains) / losses transferred to income statement	-1.768	-2.151
Tax effect	709	-840
At December 31	**8.935**	**11.061**

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

12. Insurance contracts for account of policyholders

Movements during the year in insurance contracts for account of policyholders

	2017	2016
At January 1	2.397.432	2.696.211
Gross premiums	53.734	68.174
Unwind of discount / interest credited	184.623	152.915
Insurance liabilities released	-560.385	-507.462
Changes in valuation of expected future benefits	-1.295	-124
Portfolio transfers and acquisitions	-10	-28
Expense loadings released	-11.270	-12.255
At December 31	**2.062.829**	**2.397.432**

13. Guarantees

13.1. Financial guarantees

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

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

	2017	2016
At January 1	6.656	6.796
Changes in valuation of expected future benefits	-1.030	-140
At December 31	**5.626**	**6.656**

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

14. Deferred tax

	2017	2016
Deferred tax liabilities	5.002	6.481
Total net deferred tax liability / (asset)	**5.002**	**6.481**

Movement in deferred tax

2017	Financial assets	Insurance contracts	Deferred expenses	Total 2017
At January 1	5.567	902	11	6.481
Charged to income statement	-395	-366	-9	-770
Charged to equity	-709	-	-	-709
At December 31	**4.463**	**536**	**2**	**5.002**

2016	Financial assets	Insurance contracts	Deferred expenses	Total 2016
At January 1	3.006	1.362	-8	4.360
Charged to income statement	1.721	-460	19	1.280
Charged to equity	840	-	-	840
At December 31	**5.567**	**902**	**11**	**6.481**

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority. Deferred tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when, in the opinion of management, it is probable that they can be utilized. All deferred taxes are non-current.

15. Other liabilities and accruals

	2017	2016
Other liabilities	59.141	51.262
Accruals	-	19
Total	**59.141**	**51.281**

15.1. Other liabilities

	2017	2016
Payables due to policyholders	50.901	47.837
Investment creditors	5	1.154
Income tax payable	3.073	-
Social security and taxes payable	249	149
Current account with group companies	4.269	-
Other creditors	642	2.122
Total	**59.141**	**51.262**
Current	56.256	50.882
Non-current	2.885	380
Total	**59.141**	**51.262**

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

16. Premium income and premiums to reinsurers

Recurring premiums	2017			2016		
	Total			Total		
	Gross	Reinsurance	General Account	Gross	Reinsurance	General Account
Without profit sharing	53.446	31	53.415	67.826	26	67.799
Life	**53.446**	**31**	**53.415**	**67.826**	**26**	**67.799**

Single premiums	2017			2016		
	Total			Total		
	Gross	Reinsurance	General Account	Gross	Reinsurance	General Account
Without profit sharing	319	-	319	374	-	374
Life	**319**	**-**	**319**	**374**	**0**	**374**

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

17. Investment income

	2017	2016
Investment income related to general account	3.496	5.138
Investment income for account of policyholders	40.291	28.230
	43.786	**33.367**

Investment income consists of:

	2017	2016
Interest income out of:		
- Debt securities	5.843	13.487
- Loans	752	1.063
- Other investments	460	863
Dividend income from shares	36.731	17.954
Total	**43.786**	**33.367**

Interest income accrued on impaired financial assets	24	40
Interest income on financial assets that are carried at fair value through profit or loss	3.946	6.178

Investment income from financial assets held for general account:

	2017	2016
Available-for-sale	2.067	2.816
Loans	755	1.066
Fair value through profit or loss	217	395
Derivatives	-667	-1.435
Other	1.124	2.296
Total	**3.496**	**5.138**

18. Fee and commission income

	2017	2016
Fee income from asset management	8.269	8.917
Total	**8.269**	**8.917**

19. Results from financial transactions

	2017	2016
Realized gains / (losses) on financial investments	1.768	2.151
Net fair value change of derivatives	-7.516	-7.733
Net fair value change on financial assets at fair value through profit or loss for account of policyholder	144.969	121.794
Total	**139.221**	**116.211**

Realized gains and losses on financial investments

	2017	2016
Debt securities and money market investments (AFS)	1.768	2.151
Total	**1.768**	**2.151**

Net fair value change of derivatives comprise:

	2017	2016
Net fair value change on economic hedges where no hedge accounting is applied	-7.930	-7.709
Net fair value change on bifurcated embedded derivatives	1.030	140
Ineffectiveness hedge accounting / amortization base adjustment	-616	-164
Total	**-7.516**	**-7.733**

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

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

	2017	2016
Shares	146.813	127.521
Debt securities and money market investments	-1.844	-5.728
Total	**144.969**	**121.794**

20. Policyholder claims and benefits

	2017	2016
Claims and benefits paid to policyholders	552.116	498.313
Change in valuation of liabilities for insurance and investment contracts	-333.309	-298.655
Total	**218.808**	**199.658**

21. Commissions and expenses

	2017	2016
Commissions	11	12
Administration expenses	16.483	21.467
Amortization of deferred expenses	71	34
Total	**16.565**	**21.514**

Administration expenses

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. This allocation is examined each year. The administration expenses do not include depreciation expenses.

Employees

Aegon Spaarkas does not have employees, but makes use of the employees that are on the payroll of Aegon Nederland. The salaries, social security contributions and pension contributions for staff working for Aegon Spaarkas are recharged to Aegon Spaarkas by Aegon Nederland.

The assets and liabilities arising from employee benefits for staff working for Aegon Spaarkas are recognized in the financial statements of Aegon Nederland. Refer to the financial statements of Aegon Nederland for more information on the pension plan and the defined benefit liabilities. The pension cost charged (post-employment benefit costs) to Aegon Spaarkas are a fixed percentage of the salaries charged to the entity.

Remuneration Board of Directors

The members of the Board of Directors of Aegon Spaarkas are also members of the Board of Directors of the other entities within the Aegon Nederland Group, including the Board of Directors of Aegon Nederland. The members of the Board of Directors are employees of Aegon Nederland and receive their remuneration via Aegon Nederland. The table below represents the total remuneration for their activities within Aegon Nederland group. The amounts are in euro, instead of EUR thousand.

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

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. With respect to the total remuneration of the Board of Directors of Aegon Nederland in 2017, 2% (2016: 3%) was allocated to the income statement of Aegon Spaarkas.

Mortgage loans Board of Directors
On the reporting date, the current members of the Board of Directors had mortgage loans totaling EUR 2,984 thousand from a company associated with Aegon Nederland (2016: EUR 973 thousand) at variable interest rates ranging from 1.79 to 5.30% (2016: 2.20% to 5.9%) in line with the terms and conditions available to the employees of Aegon Nederland. Mortgages provided during the year amount to EUR 930 thousand (2016: EUR 0) and repayments amount to EUR 25 thousand (2016: EUR 424 thousand). Other movements within mortgages are the result of changes in the composition of the Board of Directors. No other loans, guarantees or advance payments exist.

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

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

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

22. Impairment charges / (reversals)

	2017	2016
Impairment charges comprise:		
Loans	17	79
Total	**17**	**79**
Reversals of impairment charges comprise:		
Loans	-	-159
Total	**-**	**-159**
Net impairment charges / (reversals)	**17**	**-80**

23. Interest charges and related fees

	2017	2016
Short-term liabilities and deposits	408	635
Total	**408**	**635**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	408	635

24. Corporate income tax

	2017	2016
Current tax		
- current year	3.073	122
- adjustments to prior year	-	-166
Deferred tax		
- origination / (reversal) of temporary differences	-770	1.114
- adjustment to prior year	-	166
Income tax for the period (income) / charge	**2.303**	**1.236**

The temporary differences relate mainly to financial assets, insurance contracts and deferred expenses. The weighted average applicable statutory tax rate for Aegon Spaarkas in 2017 and 2016 was 25% and will remain the same in 2018.

<u>Reconciliation between standard and effective corporate income tax:</u>

	2017	2016
Income before tax	9.213	4.943
Income tax calculated using weighted average applicable statutory rates	2.303	1.236
Income tax for the period (income) / charge	**2.303**	**1.236**

	2017	2016
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation of available-for-sale investments	-267	1.378
Gains / losses transferred to the income statement on disposal and impairment of available-for-sale investments	-442	-538
Total income tax related to components of other comprehensive income	**-709**	**840**

25. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Aegon Spaarkas correspond with the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Aegon Spaarkas uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. Fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when Aegon Spaarkas determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (e.g. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect the own assumptions of Aegon Spaarkas about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Aegon Spaarkas employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of financial assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which Aegon Spaarkas has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

25.1. Fair value hierarchy

The table below provides an analysis of assets and liabilities recorded at fair value on a recurring basis by level of the fair value hierarchy.

2017	Level I	Level II	Level III	Total 2017
Assets carried at fair value				
AFS investments				
- Debt securities	63.305	90.810	-	154.115
FVTPL investments				
- Investments for account of policyholders	1.561.597	424.143	15.166	2.000.907
- Derivatives	-	711	-	711
Total assets	**1.624.902**	**515.664**	**15.166**	**2.155.732**
Liabilities carried at fair value				
- Derivatives	-	-	5.626	5.626
Total liabilities	**-**	**-**	**5.626**	**5.626**

2016	Level I	Level II	Level III	Total 2016
Assets carried at fair value				
AFS investments				
- Debt securities	65.325	105.863	-	171.189
FVTPL investments				
- Investments for account of policyholders	1.845.198	475.879	11.893	2.332.970
- Derivatives	-	865	-	865
Total assets	**1.910.524**	**582.607**	**11.893**	**2.505.024**
Liabilities carried at fair value				
- Derivatives	-	139	6.656	6.795
Total liabilities	**-**	**139**	**6.656**	**6.795**

Movements in Level III financial instruments measured at fair value

2017	As at 1-1-2017	Result income statement	Purchases	Sales	Transfers between I/II and III	As at 31-12-2017	Result year-end
Assets carried at fair value							
AFS investments							
FVTPL investments							
- Investments for account of policyholders	11.893	508	11.559	-9.101	307	15.166	-10
Total assets	**11.893**	**508**	**11.559**	**-9.101**	**307**	**15.166**	**-10**
Liabilities carried at fair value							
- Derivatives	6.656	-1.030	-	-	-	5.626	-1.030
Total liabilities	**6.656**	**-1.030**	**-**	**-**	**-**	**5.626**	**-1.030**

2016	As at 1-1-2016	Result income statement	Purchases	Sales	Transfers between I/II and III	As at 31-12-2016	Result year-end
Assets carried at fair value							
AFS investments							
- Debt securities	18.749	-	-	-	-18.749	-	-
FVTPL investments							
- Investments for account of policyholders	5.684	-38	9.125	-932	-1.946	11.893	-41
Total assets	**24.433**	**-38**	**9.125**	**-932**	**-20.695**	**11.893**	**-41**
Liabilities carried at fair value							
- Derivatives	6.796	-140	-	-	-	6.656	-140
Total liabilities	**6.796**	**-140**	**-**	**-**	**-**	**6.656**	**-140**

The total gains / (losses) in the last column relate to the total income in the financial year during which the financial instrument was held as Level III instrument.

Significant transfers between Levels I/II/III

During 2016 there was one transfer from Level III to Level II for an amount of EUR 19 million as quoted prices were available.

There were no other significant transfers.

Significant unobservable assumptions

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level III assets and liabilities.

2017	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Liabilities carried at fair value Derivatives - Bifurcated embedded derivatives in insurance contracts	5.626	Discounted cash flow	Credit spread	0,2%	0,2%
Total liabilities at fair value	**5.626**				

2016	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Liabilities carried at fair value Derivatives - Bifurcated embedded derivatives in insurance contracts	6.656	Discounted cash flow	Credit spread	0,4%	0,4%
Total liabilities at fair value	**6.656**				

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

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

2017	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives in insurance contracts	5.626	Credit spread	a	-94	97

2016	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives in insurance contracts	6.656	Credit spread	a	-127	131

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

Fair value information about assets and liabilities not measured at fair value

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities which are carried at fair value on a recurring basis.

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivable, short-term liabilities, accrued liabilities and long-term borrowings and group loans. These instruments are not included in the table below.

Furthermore, for certain financial instruments disclosed in the table below, the carrying amounts of reasonably approximate the disclosed fair values at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (n.a.).

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

2017	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	48.669	48.648	-	-	48.648	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	11.729	12.075	-	-	12.075	Discounted cash flow	
Policy loans	865	865	-	865	-	Discounted cash flow	

2016	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	53.897	53.380	-	-	53.380	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	13.532	13.973	-	-	13.973	Discounted cash flow	
Policy loans	1.493	1.493	-	1.493	-	Discounted cash flow	

25.1.1. Shares

When available, Aegon Spaarkas uses quoted market prices in active markets to determine the fair value of its investments in shares. Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Adjustments for lack of liquidity are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

25.1.2. Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Spaarkas uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Spaarkas' valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process, Aegon Spaarkas assesses the appropriateness of each quote (e.g., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modelling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services Aegon Spaarkas reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and reviewed for reasonableness. In addition, Aegon Spaarkas performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that Aegon Spaarkas can corroborate detailed information such as assumptions, inputs and methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third-party pricing services and brokers will use modelling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate.

Periodically, Aegon Spaarkas performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. The asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or un-priced securities. Additionally Aegon Spaarkas performs back testing on a sample basis. Back testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the price used for financial reporting and the transaction price are investigated to explain the cause of the difference.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining the view of Aegon Spaarkas of the risk associated with each security. However, Aegon Spaarkas does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon Spaarkas' view of the risks associated with each security.

Aegon Spaarkas' portfolio of private placement securities (held at fair value under the classification of available-for-sale or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Aegon Spaarkas' asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and a liquidity premium to account for the illiquid nature of these securities. The liquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the liquidity premium for private placement securities to the overall valuation is insignificant.

Aegon Spaarkas' portfolio of debt securities can be subdivided in Sovereign debt, Residential mortgage-backed securities (RMBS), Commercial mortgage-backed securities (CMBS), Asset backed securities (ABS), and Corporate bonds. Below relevant details in the valuation methodology for these specific types of debt securities are described.

Sovereign debt
When available, Aegon Spaarkas uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Spaarkas cannot make use of quoted market prices, market prices from indices or quotes from third-party pricing services or brokers are used.

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS)
Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices and follows with making use of third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities of corroboration of the market prices. If no market prices are available Aegon Spaarkas uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analysis, which incorporate comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is liquidity premium which is embedded in the discount rate.

Corporate bonds
Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibility of corroboration of market prices when available. If no market prices are available, valuations are determined by a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Aegon Spaarkas starts by taking an observable credit spread from a similar bond of the given issuer, and then adjusts this spread based on unobservable inputs. These unobservable inputs may include subordination, liquidity and maturity differences.

Corroboration

On a quarterly basis level classifications are assigned to all securities. Those securities that have been priced by non-binding broker quotes are classified level II/III at first instance and are corroborated in order to assign the proper level. Aegon Spaarkas compares the received quote against all available other evidence. If differences between the price used to measure the security and two additional prices are within a 3% difference range a level II is assigned, otherwise the security is classified as being level III. If quotes were not to be corroborated and did not seem to reflect a fair value, measures are taken to get a more reliable valuation; these securities always classify as level III.

25.1.3. Mortgage loans, policy loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Spaarkas, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed interest mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse assumptions (unobservable inputs), liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would decrease the fair value of the mortgage loan portfolio. The fair value of floating interest rate mortgage loans, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

25.1.4. Derivatives

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

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

Aegon Spaarkas normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[3] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Spaarkas or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads.

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

[3] International Swaps and Derivatives Associations

25.1.5. Embedded derivatives in insurance contracts including guarantees

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

Since the price of these guarantees is not quoted in any market, the fair values of these guarantees are based on discounted cash flows calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic models under a variety of market return scenarios. A variety of factors are considered including own credit spread, expected market rates of return, equity and interest rate volatility, correlations of market returns, discount rates and actuarial assumptions. The most significant unobservable factor is own credit spread. The own credit spread used in the valuations of embedded derivatives in insurance contracts is 0.2% for the year-ended (2016: 0.40%).

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

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

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy.
See also note 13 'Guarantees'.

25.2. Summary of financial assets and financial liabilities at fair value through profit or loss

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	2017		2016	
	Trading	Designated	Trading	Designated
Investments for general account	-	4.778	-	5.393
Investments for account of policyholders	-	2.000.907	-	2.332.970
Derivatives with positive values	711	-	865	-
Total financial assets at FVTPL	**711**	**2.005.684**	**865**	**2.338.363**

	2017		2016	
	Trading	Designated	Trading	Designated
Derivatives with negative values	-	5.626	139	6.656
Total financial liabilities at FVTPL	**-**	**5.626**	**139**	**6.656**

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	2017		2016	
	Trading	Designated	Trading	Designated
Net gains and losses	-7.930	145.383	-6.934	120.994

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

Investments for account of policyholders
Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer. Under the accounting policies of Aegon Spaarkas these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement.

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

Derivatives
With the exception of derivatives designated as a hedging instrument, all derivatives held for general account and held for account of policyholders are included in the table above. No loans and receivables were designated at fair value through profit or loss. Changes in the fair value of financial liabilities designated at fair value through profit or loss were not attributable to changes in credit spread, with the exception of the life contingent guarantees. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

26. Commitment and contingencies

26.1. Other commitments and contingencies

Guarantees given	2017	2016
Standby letters of credit	402	609

Aegon Spaarkas is part of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V. and consequently pays its share of the reinsurance premium and other expenses. The letters of credit shown above relate chiefly to the guarantee issued by Aegon Spaarkas for its share in the excess risk of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V. In addition to the above guarantees, guarantees have been issued for compliance with contractual obligations such as investment mandates of investment funds. The future transfer price will be at the fair value at the investment date.

26.2. Litigations and proceedings

Aegon Spaarkas is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Also, certain groups encourage others to bring lawsuits in respect of products. Aegon Spaarkas has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Spaarkas will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

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

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

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

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

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

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

In 2014, the Dutch Supreme Court denied Aegon Spaarkas´ appeal against a ruling of the Court of Appeal with respect to a specific Aegon Spaarkas unit-linked product, the "KoersPlan" product. Between 1989 and 1998, Aegon Spaarkas issued, sold or advised on approximately 600,000 KoersPlan policies. In 2011, the Court of Appeal ruled that Aegon Spaarkas should have more clearly informed its customers about the amount of premium which the company charged in relation to the death benefit embedded in those products. Prior to the ruling Aegon Spaarkas had already taken steps to improve its communications with customers as well as adjusting the amounts charged to KoersPlan customers. As a result of the Dutch Supreme Court's denial of appeal, Aegon Spaarkas compensated the approximately 35,000 holders of KoersPlan products who were plaintiffs in the litigation. In 2015, Aegon Spaarkas announced that it would voluntarily compensate holders of KoersPlan products that were not plaintiffs in the litigation. The compensation amounts to the difference, if any, between the amount of premium charged by Aegon Spaarkas for a comparable risk in a product providing only death benefit coverage over the same period, and the premium (if higher) actually charged by Aegon Spaarkas in connection with the KoersPlan product. This voluntary product improvement was supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. This improvement was extended to all tontine saving plan products (Spaarkassen) of Spaarbeleg. A follow-up and extension of the Regeling Spaarbeleg for the Spaarbeurs and Spaarlift portfolio of Aegon Spaarkas started in 2017 and is expected to continue in 2018. However, another interest group, Stichting Woekerpolisproces, announced in 2014 that it expected in the future to file a claim in court against Aegon Spaarkas, alleging that the compensation is too low and should be paid not only to all KoersPlan policyholders, but also to all holders of other products sold by Aegon Spaarkas with a death benefit (and corresponding premium payment obligation).

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

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

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

In recent years claims regarding unit-linked policies have also been handled by the Klachteninstituut Financiële Dienstverlening ('KIFID'). KIFID is an independent body that offers an alternative forum for customers to file complaints or claims over financial services. Its decisions may be appealed to the courts. In 2017 the Appeal Committee of KIFID rendered decisions against other insurers. There are claims pending with KIFID filed by customers over Aegon Spaarkas products that arguably include similar allegations. At this time the decisions of KIFID and courts are far from homogenous. If KIFID were to finally decide unfavorably, there can be no assurances that ultimately the aggregate exposure to Aegon of such adverse decisions would not have a material adverse effect on Aegon's results of operations or financial position if the principles underlying any such decision were to be applied also to Aegon Spaarkas products.

<u>Proceedings in which Aegon Spaarkas is involved</u>

In September 2014, consumer interest group Vereniging Woekerpolis.nl filed a claim against Aegon Spaarkas in court. The claim related to a range of unit-linked products that Aegon sold in the past, including products over which Aegon was involved in litigation in the past, like the KoersPlan product. While the number of products to which the claim may relate was reduced by the court in its interlocutory ruling of October 28, 2016, it still concerns the majority of Aegon's unit-linked portfolio. The claim challenges a variety of elements of these products, on multiple legal grounds, including allegations made in earlier court cases. In June 2017 (and revised in December 2017), the court issued its verdict which upheld the principle that disclosures must be evaluated according to the standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose certain charges on a limited set of policies. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. This court decision has been appealed by both parties. There are individual claims pending with KIFID and courts filed by customers over Aegon products that arguably include similar allegations. At this time the decisions of KIFID and courts are far from homogenous. Aegon expects the claims and litigation on unit-linked policies to continue for the foreseeable future. Developments in similar cases against other Dutch insurers currently before regulators, KIFID and courts may also affect Aegon. These matters will be defended vigorously; however, at this time, due to the nature and the type of claims, it is not practicable for Aegon to quantify a range or maximum liability or the timing of the financial impact, if any.

27. Transfers of financial assets

Except for security lending, Aegon Spaarkas does not have financial assets that have been transferred to another party in such a way that part or all of the transferred assets do not qualify for derecognition.

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

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

Securities lending	2017	2016
Carrying amount of transferred financial assets	45.120	64.161
Fair value of cash collateral received	-3.917	-3.893
Fair value of non-cash collateral received	-42.959	-63.646
Net exposure	**-1.756**	**-3.378**
Non-cash collateral that can be sold or repledged in the absence of default	42.959	63.646

Aegon Spaarkas is not involved in repurchase agreements nor does it have continuing involvement for derecognized financial assets that have been transferred in their entirety.

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

Aegon Nederland has no transferred financial assets that are derecognized in their entirety, but where it has continuing involvement as per year-end 2017 and 2016.

28. Offsetting, enforceable master netting arrangements and similar arrangements

The table below provides details relating to the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities.

Financial assets and liabilities are offset in the statement of financial position when Aegon Spaarkas has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously.

Aegon Spaarkas mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities of Aegon Spaarkas to facilitate Aegon Spaarkas' right to offset credit risk exposure.

Aegon Spaarkas can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Spaarkas or its counterparty. Transactions requiring Aegon Spaarkas or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. Refer to the credit risk section in note 4.4.4 'Credit risk' for details on collateral received for derivative transactions.

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

2017	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	711	-	**711**	-	711	**-**
At December 31	**711**	**-**	**711**	**-**	**711**	**-**

2016	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	865	-	**865**	139	-	**726**
At December 31	**865**	**-**	**865**	**139**	**-**	**726**

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

2017	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral pledged (excluding surplus collateral)	**Net amount**
Derivatives	-	-	**-**	-	-	**-**
At December 31	**-**	**-**	**-**	**-**	**-**	**-**

2016	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	**Net amounts of financial liabilities presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral pledged (excluding surplus collateral)	**Net amount**
Derivatives	139	-	**139**	139	-	**-**
At December 31	**139**	**-**	**139**	**139**	**-**	**-**

29. Related party transactions

Entities in the Aegon N.V. group carry out a range of transactions with each other. The main ones are described below.

In 2013, Aegon Spaarkas acquired a portfolio of mortgage loans from Aegon Levensverzekering of EUR 70 million. Aegon Levensverzekering continues to service this portfolio, for which Aegon Spaarkas paid EUR 0.1 million of servicing fees during 2017 (2016: EUR 0.1 million).

Aegon Spaarkas has entered into a short-term deposit with Aegon Levensverzekering of EUR 15 million (2016: EUR 5 million). This deposit is accounted for in note 9 ‘Long-term borrowings and group loans’.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. The recharge was EUR 3.7 million (2016: EUR 3.9 million). The investment portfolio amounted to EUR 2,167 million (2016: EUR 2,517 million). Furthermore Aegon Spaarkas received a management fee of EUR 8.3 million (2016: EUR 8.9 million).

At the end of the year, Aegon Spaarkas had a current account payable to Aegon Nederland of EUR 4.3 million (2016: current account receivable of EUR 90.3 million), see notes 10.1 ‘Receivables’ and 15.1 ‘Other liabilities’. In 2017 EUR -/-0.1 million (2016: EUR -/- 2.3 million) of interest expense on the intercompany current account was recognized in the income statement.

Aegon Levensverzekering provides Aegon Spaarkas with administrative support and facilities at cost. All transactions with group companies pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. Total recharged expenses in 2017 were EUR 1.9 million (2016: EUR 3.9 million). In addition, overhead expenses of EUR 5.5 million (2016: EUR 8.7 million) were recharged.

Aegon Spaarkas participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Spaarkas uses to mitigate interest rate risk are concluded with Aegon Derivatives N.V. Aegon Spaarkas posted cash collateral on derivative positions via Aegon Derivatives N.V. See for more information note 9 ‘Long-term loans and group loans’. Net fair value change on these derivative transactions amount to EUR -/- 7.9 million (2016: EUR -/- 7.7 million). The derivatives had a debt position of EUR 1 million (2016 EUR 1 million credit).

As of January 2017 Aegon Spaarkas has changed the core part of the intercompany loan to Aegon Nederland, to a fixed term loan of EUR 100 million for a 10 years period.

Aegon Spaarkas is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax group as if it were an autonomous taxpayer. Aegon Spaarkas is jointly and severally liable for all tax liabilities of the entire tax group.

Aegon Spaarkas offers products to key management personnel of Aegon Spaarkas itself, on the same terms and conditions as for other members of staff of the whole Aegon group.

In 2017 and 2016 Aegon Spaarkas did not pay dividend to Aegon Nederland.

30. Post reporting date events

There were no post reporting date events that give further information on the situation pertaining on the reporting date.

31. Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year of EUR 6.9 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The Hague, April 30, 2018

The Supervisory Board,

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

The Hague, April 30, 2018

The Board of Directors,

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

Other information

Statutory provisions regarding profit appropriation

Profit shall be appropriated in accordance with Article 23 of the articles of association of Aegon Spaarkas N.V., which can be summarized as follows:

1. The Annual General Meeting is authorized to appropriate the profit as determined by adoption of the financial statements and to declare distributions, with due regard for the statutory restrictions.
2. Distributions on shares may only be made up to the amount of the distributable capital and reserves and, in the case of an interim distribution, if this requirement is met as evidenced by an interim statement of net assets pursuant to Section 2:105(4) of the Dutch Civil Code. The company shall file the statement of net assets at the offices of the trade register within eight days of the day on which the resolution for distribution is announced.
3. The authority of the Annual General Meeting to declare a distribution shall apply to distributions from profits not taken to reserves and to distributions charged to any reserve, and to distributions on the adoption of the financial statements and to interim distributions.
4. A resolution to make a distribution shall not take effect until approved by the board. The board shall refuse to give approval if it knows or reasonably ought to know that following the distribution the company would be unable to continue paying its liabilities when due.

Independent auditor's report

Independent auditor's report

To: The General Meeting and Supervisory Board of Aegon Spaarkas N.V.

Report on the financial statements 2017

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Aegon Spaarkas N.V. as at 31 December 2017, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of Aegon Spaarkas N.V., Leeuwarden ('the Company).

The financial statements comprise:

- the statement of financial position as at December 31, 2017;
- the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Aegon Spaarkas N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Aegon Spaarkas N.V. is active in life insurance products, mainly tontine plans.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Notes 3 and 25 of the financial statements the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty.

Given the significant estimation uncertainty and the related higher inherent risks of material misstatement the valuation of insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation, the fair value of 'hard to value' financial instruments, uncertainties in policyholder claims and litigation and disclosures on the capital position based on Solvency II regulations we considered these to be key audit matters as set out in the section 'Key audit matters' of this report.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

Furthermore, to the extent relevant for our audit, we addressed information technology general controls ('ITGCs'), that are the policies and procedures used by the Company to ensure information technology ('IT') operates as intended and provides reliable data for financial reporting purposes.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a diverse financial institution. Accordingly, our audit team included industry expertise in life and non-life insurance, banking and asset management, as well as specialists including actuaries, IT auditors, treasury, tax, remuneration and valuation specialists.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: €9,8 million.

Audit scope

- We had all regulated insurance operations in the scope of our audit, including the investments and real estate portfolios managed by related parties.

Key audit matters

- Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation
- Fair value of 'hard to value' financial instruments
- Uncertainties in policyholder claims and litigations
- Disclosures on the capital position based on Solvency II regulations

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall materiality	€9,8 million (2016: €9,5 million).
Basis for determining materiality	At the start of the planning of our audit we performed a stakeholders' analysis that identified suitable benchmarks and thresholds for determining overall materiality for the statutory financial statements. We utilised quantitative and qualitative measures that included the perspective of the common information needs of the parent company, policyholders, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. Our evaluation of overall materiality has been based on applying 4% of equity. This resulted in an overall materiality of €9,8 million (2016: €9,5 million). The increase in overall materiality can be attributed to the increase in equity due to positive results. The allocated materiality to the Company from its parent company that was used for group reporting purposes amounted to €54 million (2016: €54 million). We applied the lower of the two amounts. We reassessed the materiality level based on the final outcome as at 31 December 2017. The reassessment did not lead to a revision of the determined level, since the updated materiality level was slightly

	higher than our initial calculation.
Rationale for benchmark applied	Capital, i.e. Solvency is a key measurement for regulators, policyholders and other creditors. Accordingly, we used a percentage of the Company's equity as a quantitative benchmark. The allocated materiality to the Company agreed with its parent company Aegon Levensverzekering N.V. reflects its shareholders perspective on the financial performance of the Company's operations, is based on profit before tax.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €490.000 (2016: €475.000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our audit

The audit team performed audit work on all significant line items included in the financial statements, except for the investments that are managed by related parties, where we made use of the audit work performed by the component auditor.

Where work was performed by the component auditor, we determined the level of involvement we needed to have in the audit work of that component. This determination was made in order for us to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. In addition to writing instructions, we developed an oversight strategy for the component based on its significance and/or risk characteristics. These strategies included procedures such as regular meetings and discussions with the component auditor to challenge and review significant audit matters and judgements within the component team audit file, reporting to the audit team and closing meetings.

By performing the procedures above, combined with additional procedures at company level, we have been able to obtain sufficient and appropriate audit evidence on the company's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

Due to the nature of the insurance industry and economic environment the following key audit matters are consistent with the prior year:

- Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation;
- Fair value of 'hard to value' financial instruments;
- Uncertainties in policyholder claims and litigations;
- Disclosures on the capital position based on Solvency II regulations.

In the table below, we describe the key audit matters and included a summary of the audit procedures we performed on those matters.

Key audit matter	*How our audit addressed the matter*
Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation *Refer to note 2.12 'Summary of significant accounting policies-insurance contracts', and note 12 'Insurance contracts for account of policyholders'.* The company has significant insurance contracts for account of policyholders stated at €2.1 billion at 31 December 2017 representing 97% of the Company's total liabilities, which relates to the Life products. This is an area that involves significant judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term insurance liabilities and relevant guarantees provided to policyholders, and therefore we considered it a key audit matter for our audit. • Consistent with the insurance industry, the Company uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design or application of the models. • Economic assumptions such as investment returns and interest rates and actuarial assumptions such as mortality, morbidity and customer behaviour are key inputs used to estimate these long-term liabilities. Significant judgement is applied in setting these assumptions. • Positive technical results in the previous years led to a surplus resulting from management's liability adequacy testing of €103 million as of December 31, 2017.	We used our own actuarial specialists to assist us in performing our audit procedures. In particular, our audit focused on the actuarial models considered more complex and/or requiring significant judgement in the setting of assumptions such as the relevant guarantees provided to policyholders. We evaluated the design and tested the operating effectiveness of internal controls over the actuarial process including management's determination and approval process for setting of economic and actuarial assumptions. We assessed the Company's validation of certain models considered medium and higher risk by the Company as a result of complexity and/or magnitude. We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. We also assessed and tested the internal controls over the Company's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences. Furthermore, we performed audit procedures over the models and model updates to determine the models and systems were calculating the insurance contracts liabilities accurately and completely. We tested the validity of management's liability adequacy testing which is a key test performed to check that the insurance liabilities are adequate as compared to the expected future contractual obligations. Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Company's and industry experience and specific product features. In addition, we validated the calculations performed. We also assessed the adequacy of the disclosures in note 2.12 and note 12 of the financial statements in

Key audit matter	How our audit addressed the matter
	relation to insurance contract liabilities.
Fair value of 'hard to value' financial instruments *Refer to note 2.5 'Summary of significant accounting policies-investments' and note 25 'Fair value of assets and liabilities''.* The Company's investment portfolio, including net derivative assets, totalling €2,2 billion represents 93% of the Company's total assets. Quoted prices from liquid market sources can be obtained for a large portion of the portfolio. The areas that involved significant audit effort and judgement were the valuation of illiquid instruments. These instruments are valued based on models and assumptions that are not observable by third parties which are generally considered level III as included in Note 25 'Fair value of assets and liabilities'. Those investments have a higher potential risk to be affected by error or management bias. Therefore these areas are considered a key matter for our audit. Our focus considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortized cost on the balance sheet but for which fair value is required to be disclosed. The risk was not uniform for all investment types and industries and was considered greatest for derivatives, indirect investments in real estate, mortgage loans, asset backed securities, hedge funds, private equity funds and other alternative investments, unlisted equity and debt securities.	We assessed the design and tested the operating effectiveness of internal controls over the investments' valuation and impairment process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management's review of valuations provided by external experts or data vendors. We performed substantive audit procedures to supplement procedures over internal control testing. We assessed pricing model methodologies against industry practice and valuation guidelines. We compared assumptions used against appropriate benchmarks and pricing sources, investigated significant differences and performed our own independent valuations, using valuation statements, independent broker quotes and underlying financial data, where applicable. We evaluated the cash flow and other relevant testing performed by the Company in order to identify any impairment in relation to investments. We used our valuation specialists to assist us in performing our audit procedures. We also assessed whether the Company's disclosures in the financial statements in relation to the valuation of investments are in accordance with EU-IFRS.
Uncertainties in policyholder claims and litigation *Refer to note 26 'Commitments and contingencies'* The insurance industry continues to face consumer activism and regulatory scrutiny over product design and selling practices. The Company has encountered claims and litigations in this respect. Depending on the actual legal position and expectations from management, claims, including litigation related, are either provided for as a liability or reflected as contingent liabilities in the notes to the financial statements. The Company uses external legal experts where applicable to evaluate its legal positions. Given the uncertainty and judgement in this area we determined this as a key audit matter.	We gained an understanding of the policyholders' claims and litigations through discussions with management including general legal counsel. We have read the internal position papers prepared by the Company. We also obtained lawyers' letters to the extent considered necessary for our audit. For all (potentially) material claims we tested the underlying facts and circumstances considered relevant for the legal advisors to come to their assessments and assessed the best estimate of outflows as determined by the Company. We tested that the Company has properly reflected the claims and litigations in either the provisions or contingent liabilities by assessment these against IAS 37. We also assessed the completeness and adequacy of the related disclosures to determine they were in

Key audit matter	How our audit addressed the matter
	accordance with EU-IFRS.

Key audit matter	How our audit addressed the matter
Disclosures on the capital position based on Solvency II regulations *Refer to note 4.2 'Capital management and solvency'.* Aegon Spaarkas, as an insurance company, determines the required capital to cover the risk exposure based on the Solvency II requirements. For some risks a partial internal model, approved by DNB, is used to determine the capital requirements. For the other risks, the standard formula is applied. When determining the available funds (€212 million) and the required capital positions (€44 million) some important estimates and valuation models are applied, in which input is used, that is not observable in the market. The main elements are: • The cash flows used to determine the economic value of the technical provisions; • Expected premium income for the next year; • Projected fiscal results and an analysis of future realisations; • The loss absorbing capacity of deferred taxes on a shock in the solvency capital. As disclosed in note 4.2. Solvency capital ratios are not final until filed with the regulator and subject to supervisory review. Relating to the management estimates and complex valuation models, there is a higher risk of a misstatement. As the Solvency-ratio is an important metric and the Solvency II information is being used in the capital- and dividend policy of the company, we believe this information is important. Therefore we consider this to be a key audit matter.	We designed our audit procedures with respect to the Solvency II required and available capital taking into account NBA practice guidance in Audit Alert 40. We verified that the adjustments to come from the IFRS balance sheet to the economic balance sheet, the basis for the calculation of the available capital, are accurate and complete and in accordance with Solvency II regulations. We have tested the estimates (parameters and assumptions with respect to mortality, claims, lapse and future expenses) used to determine the cash flows to the observed experience. Where the assumptions take into account actions of management, we have challenged management on the feasibility and associated impact. We determined that information to support the estimates as used by management is available and we believe that estimates are reasonable. We assessed that the capital requirements for each sub risk are calculated in accordance with Solvency II regulations, or the approved internal model where applicable. In this respect we tested the internal control procedures concerning the data used, the model governance and the calculation process. We also performed independent sample tests on the data used and the calculations performed. We assessed the loss absorbing capacity of deferred taxes that is taken into account in the calculation of the solvency capital requirement. Herewith, we evaluated management's projections of future (fiscal) results. These projections are based upon approved budgets and forecasts. For the life-business these reconcile to the cash flow projections that are made to calculate the technical provisions. We performed back-testing on budgets and the previous year's forecasts. Further we have assessed that the valuation differences between the fiscal and the Solvency II valuation are adequately taken into account in the correct year of the projection. Furthermore we focussed on the accuracy of the movements in the expected results, due to corrective measures, the correct timing of the inclusion of losses from the shock in fiscal results and that regulations with respect to offsetting of losses are applied correctly. We verified that the estimates, as used by management,

Key audit matter	*How our audit addressed the matter*
	are sufficiently supported. Furthermore we assessed the adequacy of the disclosures.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the Report of the Board of Directors;
- the Report of the Supervisory Board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the report of the Board of Directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were initially appointed as auditors of Aegon Spaarkas N.V. by its shareholder Aegon Levensverzekering N.V. for the years 2014 to 2016 following the passing of a resolution by the shareholders of Aegon N.V. at the annual meeting held on May 15, 2013. We were reappointed as auditors of Aegon Spaarkas N.V. for the years 2017 to 2018, representing a total period of uninterrupted engagement appointment of 4 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

In addition to the audit, we have provided the Company services required by laws and regulations as well as other audit services, being attestation services and audits of regulatory information for the Company's regulator the Dutch Central Bank (DNB).

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Directors and the supervisory board for the financial statements

The Board of Directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going-concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 30 April 2018
PricewaterhouseCoopers Accountants N.V.

Originally signed by E.L. Rondhout RA

Appendix to our auditor's report on the financial statements 2017 of Aegon Spaarkas N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Concluding on the appropriateness of the Board of Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.