Annual report 2017

Aegon Hypotheken B.V.

Aegon Hypotheken B.V.
Aegonplein 50
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Contents

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Report of the Board of Directors

1. General information

1.1. Purpose and mission statement

The parent company of Aegon Hypotheken B.V. (‘Aegon Hypotheken’), Aegon Nederland N.V. (‘Aegon Nederland’), has formulated its purposes, strategy and objectives and these also apply to Aegon Hypotheken.

Aegon Nederland has customers at the core of its strategy. On October 1st, 2016 Aegon Nederland introduced the Future Fit Strategy, the purpose of which is to become the “customer based company of the future”. The refocused strategy centers around Aegon Nederland’s mission to “enable people to make self-conscious decisions on their financial future” (“wij stellen mensen in staat zelf, bewust keuzes te maken voor hun financiële toekomst”).

This means doing the right things in the best possible way in the interests of our customers. In 2016, Aegon Nederland started the implementation of the Future Fit Strategy, thereby transforming Aegon Nederland’s company structure into four divisions: 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. Aegon Nederland’s strategy is aligned across four set objectives, to create loyal customers, achieve operational excellence, realize an optimized portfolio and have empowered employees.

1.2. Main activities, products, services and geographic areas

Aegon Hypotheken incorporated and domiciled in the Netherlands, is a private limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague at its registered address at Aegonplein 50, 2591 TV The Hague. Aegon Hypotheken is a 100% subsidiary of Aegon Nederland, which is indirectly a wholly-owned subsidiary of Aegon N.V.

Aegon Hypotheken grants mortgage loans to Dutch consumers for own book and for account of other Aegon Nederland group entities and for fee business partners. It obtains the funding it needs to finance those loans from companies in the Aegon group (internal funding), through financing agreements with professional parties outside the Aegon group (external funding) and by financing transactions on the capital market (securitizations).

1.3. Employees

Aegon Hypotheken itself does not have labor contracts with employees, but is serviced by Aegon Nederland N.V. at which entity employees are employed. Related expenses are charged to Aegon Hypotheken B.V.

1.4. 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")
- Financial results
    - Capitalization considerations
    - ALM: strategic asset allocation
- 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)
- Monitoring the customer Net Promoter Score (NPS)
- Proposition innovation
- Macroeconomics and market developments

1.5. 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 January 1, 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 from the Board.

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 of Aegon Nederland also takes gender diversity into consideration in light of its goal to have a balanced composition in the Board of Directors. The Supervisory Board of Aegon Nederland 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.

1.6. Remuneration policy

Aegon Nederland's remuneration policy also applies to Aegon Hypotheken. 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 of Aegon Nederland, 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 of Aegon Nederland 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 of Aegon Nederland 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 members 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 for the 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.

1.7. 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.

1.8. Business developments

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

In 2017 the largest growth was realized from refinancing (37%) and by home owners moving to a new property (25%). The group of starters in the market showed a relative weak growth of 6% indicating that higher house prices and shortage of supply of suitable houses hinder potential entrants. The total number of mortgages sold also increased significantly, by 15% to 315,000. This growth is lower than the growth in volume due to an increase in the average mortgage amount to EUR 286,000 (2016: EUR 264,000).

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

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

2. Financial information

2.1. Developments during the year

Mortgage production and portfolio
The mortgage production of Aegon Hypotheken increased compared to 2016, because of higher mortgage production for spread and fee based business. The mortgage production for fee business was EUR 4.6 billion in 2017 (2016: EUR 4.2 billion). The mortgage production for Aegon Nederland group's own account was higher with EUR 4.4 billion (2016: EUR 2.0 billion) of which EUR 198 million (2016: EUR 210 million) for the account of Aegon Hypotheken.

The mortgage production for fee based business is concentrated in the Dutch Mortgage Fund (DMF). DMF has specifically been created, in cooperation with Aegon Asset Management, to provide third-party funded mortgages. DMF offers institutional investors the ability to invest in Dutch residential mortgages granted by Aegon Hypotheken for the account and risk of DMF. The fund pays Aegon Hypotheken a fee for granting and managing the mortgages. DMF has proven to be a successful proposition in market. The fee based business complements the spread business in which the mortgages are held by either Aegon Hypotheken or other entities within the Aegon Nederland group for own account and risk. In 2017, Aegon Hypotheken and Aegon Asset Management founded DMF II and implemented a new contract with an external fee partner. Both developments in combination with demand from existing investors and partners increased supply and funding possibilities.

The mortgage portfolios held for own account and for third parties show higher repayments and prepayments due to low interest rates and increased customer awareness on the risks involved in high debt levels. This has driven an increase in interest resets and therefore leads to pressure on interest margins going forward. The increased level of repayments, supported by (fiscal) regulations, furthermore results in shorter duration of the mortgage portfolio.

In line with last year, the number of clients not able to meet their mortgage obligations has been decreasing. Defaults were limited and lower than last year. Higher housing prices and the required redemptions on mortgage loans lead to more favourable Loan-to-Values (LTVs). The credit risk on the mortgage portfolio therefore has been declining further.

Laws and regulations
In July 2016 the European mortgage directive came into effect. In 2017, the guidelines for implementation have been issued by the AFM. Aegon Hypotheken followed-up on these guidelines by review of interest penalties imposed for early redemptions and concluded that for a group of clients Aegon Hypotheken's application of the terms and conditions in accordance with the mortgage contracts, was not in line with the guidelines. Aegon Hypotheken compensated these clients. These compensations did not have a material impact on the net income for the year. Further guidelines from the AFM on interest penalties are expected in 2018. Aegon Hypotheken expects that further follow-up will be required.

Earlier adopted regulations regarding the maximum LTV of new production set the limit for regular mortgages at 101% as per 2017 and 100% for 2018. It is not clear whether further restrictions to the LTV percentage beyond 2018 will be imposed.

As of January 1, 2018 Aegon Hypotheken will apply the International Reporting Standard (IFRS) 9 on classification and measurement of financial instruments, which succeeds International Accounting Standard (IAS) 39. The main impact will be on the loss recognition of mortgages. IFRS 9 requires a shift from 'incurred loss' to an 'expected loss' model. Aegon Hypotheken expects no significant change in its mortgage loss reserve. Impact from changed requirements on classification of financial instruments and on macro fair value hedging are not expected to be significant. As Aegon Hypotheken has decided not to engage in sales of mortgages going forward, which is relevant for the business model test required under IFRS 9, the current amortized cost classification of mortgages will be maintained.

Financial results
The result in 2017 was a profit of EUR 40.0 million before tax, which is EUR 7.7 million lower compared to 2016. This decrease was due to a lower interest income of EUR 6.9 million. This is due to a lower average mortgage balance, lower coupons and higher amortization charge on purchased mortgages. Furthermore, the change in finance structure in third quarter of 2016 and the capital upstream to Aegon Nederland, requiring more external funding, led to an increase of interest expenses. Partly this has been compensated by higher fee income (EUR 2.7 million) and higher results from financial transactions (EUR 1.9 million) compared to 2016. Fee income rises following the increase of mortgages under management for third party investors. The higher results from financial transactions is mainly caused by favorable results from hedging (EUR 13 million), despite lower gains on disposal of mortgage loans (EUR 11 million). Expenses were EUR 2 million higher due to higher mortgage assets under management.

Solvency and liquidity
Shareholders' equity at December 31, 2017 amounts EUR 200.4 million compared to EUR 295.4 million at year-end 2016. The decrease is caused by the capital upstream to Aegon Nederland of EUR 125 million offset by the net profit over 2017 of EUR 30.0 million.

As part of the revision of the funding structure in the third quarter of 2016 further discussed in section 'Cash flows and funding', an analysis has been performed on the required capitalization of Aegon Hypotheken. Given the stable funding base, own capital of Aegon Hypotheken could be used more efficiently. It therefore has been decided to upstream a dividend of EUR 75 million to Aegon Nederland. As part of the review of Aegon Nederland's capital allocation over its subsidiaries in the beginning of the second half of 2017, aimed at strengthening the overall capital position, another EUR 50 million has been upstreamed to Aegon Nederland.

Aegon Hypotheken's solvency and liquidity position have been assessed as part of Aegon Nederland's solvency and liquidity management and is considered as adequate during and as per year-end 2017.

Cash flows and funding

To meet its liquidity and solvency requirements more effective Aegon Hypotheken has revised its funding structure during 2016. The previously existing internal committed and uncommitted facilities have been replaced with a combination of long term secured and unsecured loans from Aegon Levensverzekering and Optas Pensioenen and a committed revolving credit facility from Aegon N.V. The new funding structure leads to a sustainable long term business model for Aegon Hypotheken with more robust funding sources. During 2017, following the growth in the fee business, and the capital upstreams to Aegon Nederland, more funding and more flexible funding was required. Aegon Hypotheken therefore agreed to extend the possibilities under the current warehouse funding by increasing the frequency in which it is allowed to draw from or to redeem the facility as well as allowing pre-funding of mortgages.

The long-term maturity of the mortgages requires a funding profile that matches this maturity. Aegon Hypotheken therefore obtained longer term loans as part of the Saecure program. These loans have an expected maturity derived from the FORD which stands for the First Optional Redemption Date. At this date Aegon Hypotheken has the first right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. In 2017, redemption of the Saecure 12 notes has taken place. At redemption date, EUR 90 million of the notes were outstanding for Aegon Hypotheken, whereas the remaining were outstanding for Aegon Levensverzekering which controlled the structure. Because of the decreasing spread portfolio, the impact on the funding requirements are limited.

Further funding is available from the undrawn part of the current facilities as per December 31, 2017, which are EUR 1.3 billion (2016: EUR 1.6 billion) from external (warehouse) facilities and EUR 0.2 billion (2016: EUR 0.4 billion) from the liquidity line of Aegon N.V. These facilities provide room for short-term liquidity needs. Given the room and the flexibility in the warehouse facilities, Aegon Hypotheken committed EUR 0.5 billion of undrawn warehouse facilities to Aegon Levensverzekering. As December 31, 2017, this commitment was undrawn.

3. Main risks and uncertainties

Risk management is an inseparable part of day-to-day operations. Inherent to its business Aegon Hypotheken is exposed to a range of strategic, operational and compliance, financial and financial reporting risks. Aegon Hypotheken's risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way aligned with its strategy.

3.1. General

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

3.2. Objectives

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

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

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

3.3. Governance framework and structure

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

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

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

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

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

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

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

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

3.1.1 *Advising on risk-related matters*

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

3.1.2 *Supporting and facilitating*

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

3.1.3 *Challenging and monitoring:*

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

3.4. Lines of defence

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

3.5. Risk management 2017

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

3.6. Operational risks

Aegon faces operational risk resulting from operational failures or external events, such as processing errors, acts from personnel, and natural or man-made disasters. Aegon's systems and processes are designed to support complex products and transactions and to avoid such issues as system failures, business disruption, financial crime and breaches of information security. Aegon 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 Nederland and include, amongst others, the risk of fraud and financial reporting, which could lead to reporting incidents. Through Risk and Control Self Assessments, all processes are analyzed periodically and recalibrated in order to bring risks within the thresholds of our risk appetite. In case of risk events, a Root Cause Analysis is performed in order to investigate whether a control was missing or if a particular control failed. Action plans are put in place to improve organizational control and these are continuously monitored by the Operational Risk Management department.

3.6.1. *Strategic risks*

Following the positive developments in the mortgage market, competitive pressure is rising. This may result in lower margins. To mitigate the impact Aegon Hypotheken is committed to cost control and ensures cost flexibility in the light of potential variances in production levels.
Furthermore, in enhancing its supply of mortgages and to ensure it is keeping pace with new developments in the market, Aegon Hypotheken is about to broaden its distribution base with multiple business partners.

A weakening of the Dutch housing market is not foreseen for the near future. Political and economic circumstances, however, may lead to a decline of the market. Aegon Hypotheken has a prudential loan offering policy with strict limits on LTV and income, and has furthermore originated a large portion of government guaranteed (NHG) mortgages. The regulations that ensure redemptions on mortgages also lead to lower LTVs.

3.6.2. *Regulatory and compliance risks*

It is the purpose of Aegon Nederland 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.

3.6.3. *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.

3.6.4. *Modelling 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. But could also mean flawed and/or incorrect model assumptions and insufficient documentation of expert judgment. Or 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.

3.6.5. *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. Or 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.

3.6.6. *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 strengthen 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.

3.6.7. *Financial risks*

The primary financial risks of Aegon Hypotheken have been identified in the following areas: defaults, prepayments, maturity of the existing portfolio and potentially lower margin for new production.

Default risk or credit risk is the risk that clients are not able to meet their mortgage obligations. The loss resulting from default is mitigated by collateral from residential real estate, saving deposits linked to the mortgage and guarantees such as NHG. The severity of credit risk therefore depends on the extent to which the collateral covers the outstanding loan. Because of the Aegon Hypotheken prudential loan offering policy and regulations that require redemptions for an increasing part of the portfolio the losses from defaults have been, absolute and compared to peers, low.
The probability of default is expected to stay at favorable levels given the positive macro-economic outlook. Aegon Hypotheken remains strict in it lending policies to ensure that the credit risk continues to be low.

A substantial higher level of prepayments, maturities and subsequent lower margins of new productions may have consequences for future profitability.

Liquidity risks are inherent in much of Aegon Hypotheken business. Each asset purchased and liability sold has unique liquidity characteristics. The mortgage loan assets are by nature illiquid, though may be transferred through securitization or funded by third parties. Funding agreements may contain requirements on eligibility of mortgages. Eligibility could deteriorate under adverse market circumstances.

Aegon Hypotheken manages its liquidity position in ordinary course of business and taking into account extreme events, including significantly reduced liquidity in capital markets. Based on regular assessments made, Aegon Hypotheken liquidity position has been adequate during 2017.

3.6.8. Financial instruments

For its hedging strategy Aegon Hypotheken holds a portfolio of interest rate swaps. The main objective of this portfolio is to translate the cash flows of the fixed rate mortgages into variable cash flows to protect the fair value of the mortgages and to align with the floating interest paid on its borrowings. The risks associated with the portfolio of swaps are over- or under-hedging and liquidity risk. In case of over- and under-hedging the objective of the hedging strategy is not met and may, in adverse circumstances, lead to substantial losses. Liquidity risk relates to the possibility of the event that margin (cash collateral) must be posted when the swap's market value becomes negative. In its policy, Aegon Hypotheken clearly defined limits and mandates for its hedge portfolio to avoid these risks. A specialized department monitors the limits and mandates set.

3.7. 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 is the third line of defense and is primarily responsible for structural evaluation and for improving the effectiveness of risk management, control, and governance processes associated with the activities of the Aegon Nederland.

Internal Audit Nederland is an independent central department at the level of Aegon Nederland. The Internal Audit Nederland Manual and the Aegon Nederland Governance Guide helps to ensure that the internal audit function meets the governance principles. The role, responsibilities, mandate and scope of their activities are also reflected in the Audit Charter. The Audit Manual states that independent auditors are not allowed to have any operational responsibilities within the first line of defense. It also states that the director of Internal Audit Nederland reports to the CEO of Aegon Nederland and has a reporting line to the chairman of the Supervisory Board's Risk & Audit Committee of Aegon Nederland.

Internal Audit Nederland has regular contact and consultations with the Supervisory Board's Risk & Audit Committee and the independent external auditor to discuss the risk analysis and the audit plan.

As part of the engagement to audit the financial statements, the independent external auditor reports his findings on the quality and effectiveness of Aegon's system of governance, risk management and control procedures to the Board of Directors and the Supervisory Board of Aegon Nederland.

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

4. Corporate Governance

Aegon Hypotheken as part of 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 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).

<u>Governance principles</u>

The Governance principles for Insurers issued by the Dutch Association of Insurers was revoked on January 1, 2016. Aegon Nederland 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>Board of Directors</u>

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 aspire to take decisions by consensus as far as possible.

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

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

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 of Aegon Nederland.

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 all 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 a responsibility for people’s financial awareness and development. Aegon Nederland strives to offer easily-understood solutions in a genuine dialogue in order to enable customers to make conscious decisions on 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 took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations. Integrity, care and putting customers' interests first are guiding principles for all Aegon Nederland employees which is reflected in the Aegon Nederland Code of Conduct that applies to all Aegon Nederland employees.

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 CO_2.

The biggest part of Aegon Nederland's CO_2-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 outlook for the Dutch residential mortgage market is, despite economic and political uncertainties, positive based on continued low interest rates, further economic growth and increasing consumer confidence. Nevertheless, across The Netherlands and specifically in larger cities in and surrounding the Randstad, a shortage of supply of houses has become visible. This results in further increase of house prices and subsequently potential buyers withdrawing from the market which may lead to pressure on the amount of mortgage transactions in the course of 2018. Based on its current position and initiatives taken, Aegon Hypotheken is confident to maintain a position of a large player on the market and to benefit from positive developments.

6.2. Research and development

Aegon Hypotheken continuously evaluates its client service and is involved in industry initiatives to enhance client orientation and optimizing the distribution channel. Aegon Hypotheken's activities are mainly directed at digitalizing its client service. New initiatives, including with start-up ventures will be explored to broaden the distribution basis and enhance customer approach.

6.3. Events after balance sheet date and expectations

No significant events after balance sheet date have taken place.

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	

Consolidated financial statements 2017 of Aegon Hypotheken B.V.

Consolidated statement of financial position

	Note	31-12-2017	31-12-2016
Amounts in EUR thousand			
Assets			
Cash and cash equivalents	5	111.491	126.724
Loans	6	2.865.000	3.007.096
Derivatives	7	311.271	467.106
Long-term loans and group loans	8	591.762	724.791
Deferred tax assets	12	1.351	1.042
Other assets and receivables	9	958.730	640.053
Total assets		**4.839.605**	**4.966.812**
Equity and liabilities			
Equity	10	200.385	295.398
Equity		**200.385**	**295.398**
Derivatives	7	534.480	753.446
Borrowings and group loans	11	3.976.832	3.840.449
Other liabilities and accruals	13	127.908	77.519
Total liabilities		**4.639.221**	**4.671.414**
Total equity and liabilities		**4.839.605**	**4.966.812**

Consolidated income statement

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Income			
Interest income	14	36.787	43.736
Interest charges and related fees	19	-14.581	-10.019
Net Interest Income		**22.207**	**33.717**
Fee and commission income	15	10.268	7.572
Results from financial transactions	16	26.355	24.443
Total income		**58.829**	**65.732**
Expenses			
Commissions and expenses	17	19.160	17.197
Total Operating Expenses		**19.160**	**17.197**
Impairment charges / (reversals)	18	**-312**	**898**
Income / (loss) before tax		**39.982**	**47.638**
Income tax	20	-9.995	-11.909
Net income / (loss)		**29.986**	**35.728**
Net income / (loss) attributable to the parent company		**29.986**	**35.728**

Consolidated statement of comprehensive income

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Net income		**29.986**	**35.728**
Total comprehensive income / (loss)		**29.986**	**35.728**
Total comprehensive income attributable to the parent company		**29.986**	**35.728**

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

Consolidated statement of changes in equity

Amounts in EUR thousand

2017

	Share capital	Share premium	Retained earnings	Total
At January 1	18	20.000	275.380	295.398
Net income / (loss) recognized in the income statement	-	-	29.986	29.986
Other comprehensive income / (loss)	-	-	-	-
Total comprehensive income / (loss)	**-**	**-**	**29.986**	**29.986**
Dividends paid on common shares	-	-	-125.000	-125.000
At December 31	**18**	**20.000**	**180.367**	**200.385**

2016

	Share capital	Share premium	Retained earnings	Total
At January 1	18	20.000	239.652	259.670
Net income / (loss) recognized in the income statement	-	-	35.728	35.728
Other comprehensive income / (loss)	-	-	-	-
Total comprehensive income / (loss)	**-**	**-**	**35.728**	**35.728**
Dividends paid on common shares	-	-	-	-
At December 31	**18**	**20.000**	**275.380**	**295.398**

Consolidated cash flow statement

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Income / (loss) before tax		**39.982**	**47.638**
Results from financial transactions	16	-14.548	-1.484
Amortization and depreciation	17	44.176	36.590
Impairment losses / (reversals)	18	-312	898
Adjustments of non-cash items		**29.315**	**36.004**
Accrued expenses and other liabilities	13	-5.515	35.842
Accrued income and prepayments	8	-274.971	300.328
Changes in accruals		**-280.486**	**336.170**
Additions to mortgage loans		-297.683	-209.634
Purchase of derivatives	7	-7.123	16.947
Redemptions of mortgage loans		347.713	252.023
Disposal of derivatives	7	7.150	-16.974
Redemption of group loans	8	98.370	380.021
Net change in cash collateral	5	34.659	382
Cash flow movements on operating items not reflected in income		**183.086**	**422.765**
Tax (paid) / received	20	1.893	-19.127
Net cash flows from operating activities		**-26.210**	**823.449**

	Note	2017	2016
Purchase of mortgage loans		-208.461	-70.550
Disposal of mortgage loans		208.054	338.184
Net cash flows from investing activities		**-407**	**267.634**
Addition to borrowings	11	487.383	24.149
Redemptions of borrowings	11	-351.000	-1.075.000
Dividends paid		-125.000	-
Net cash flows from financing activities		**11.383**	**-1.050.851**
Net increase / (decrease) in cash and cash equivalents		**-15.233**	**40.232**
Cash and cash equivalents at the beginning of the year	5	126.724	86.492
Cash and cash equivalents at the end of the year		**111.491**	**126.724**

In the cash flow statement a split has been made between on the one hand additions and redemptions of mortgages as part of ordinary course of business and; the purchases and disposals of mortgages on the other hand. Purchases and disposals are of incidental nature and driven by asset and liability management.

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)	86.408	119.092
Interest paid (excluding derivatives)	14.581	31.222
Interest derivatives received / (paid)	-51.103	-53.370

<u>Reconciliation of liabilities arising from financing activities</u>
Aegon Hyptoheken upstreamed dividend of EUR 125 million in 2017. No dividend was paid in 2016. For both 2017 and 2016 the other financing activities relate to the changes in long term borrowings.

Notes to the consolidated financial statements

1. General information

Aegon Hypotheken incorporated and domiciled in the Netherlands, is a limited liability company organized with Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV The Hague, with registration number 52054454. Aegon Hypotheken is a wholly owned subsidiary of Aegon Nederland in The Hague. Aegon Hypotheken's ultimate holding company is Aegon N.V. in The Hague. Aegon Hypotheken offers and services mortgages to Dutch consumers. Aegon Hypotheken obtains the funding it needs to finance those loans from companies within the Aegon group (internal funding) and through financing agreements with professional parties outside the Aegon group (external funding). These financing arrangements include arrangements where Aegon Hypotheken offers institutional investors the ability to invest in Dutch mortgages granted by Aegon Hypotheken for the account and risk of these institutional investors.

2. Summary of significant accounting policies

2.1. Basis of presentation

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

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

The consolidated 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, corporate income taxes and the potential effects of resolving litigation matters. Aegon Hypotheken applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS.

The consolidated financial statements of Aegon Hypotheken were approved by the Board of Directors 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 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 Hypotheken, but will be applied in future years:

Accounting standard / amendment / interpretation	IASB effective date	Endorsed by EU	Impact for Aegon
IFRS 9 Financial instruments	January 1, 2018	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 contracts	January 1, 2021	Not yet	Low
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

Introduction

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.

Classification and measurement

The majority of Aegon Hypotheken’s debt instruments are currently classified as loans and receivables (mainly mortgage loans and private loans). The business model for loans and receivables is hold to collect and the characteristics of the cash flows are solely payments of principal and interest. Therefore the loans and receivables under IAS 39 shall be classified as debt instruments at amortized cost under IFRS9.

Given that Aegon Hypotheken’s financial assets, comprising mainly its loan and mortgage portfolios and its derivative portfolio, are currently carried at a measurement basis which is expected to be the same under IFRS 9 (amortized cost and FVPL, respectively), the adoption of IFRS 9 is not expected to have a material impact on the classification and measurement of the mortgage loan portfolio of Aegon Hypotheken.

There will be no change to the classification and measurement on Aegon Hypotheken's accounting for financial liabilities. The derecognition rules have been unchanged from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairments

IFRS 9 will fundamentally change the loan loss impairment methodology. The standard will replace IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. Aegon Hypotheken will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the lifetime of the asset.

Aegon Hypotheken will group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

Stage 1 – Performing loans: when loans are first recognized Aegon Hypotheken recognizes an allowance based on the twelve months expected credit losses.

Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, Aegon Hypotheken recognizes an allowance based on the lifetime expected credit loss.

Stage 3 – Impaired loans: Aegon Hypotheken recognizes the lifetime expected credit losses for these loans. In addition, Aegon Hypotheken accrues interest income on the amortized cost of the loan, net of the allowance.

Aegon Hypotheken will incorporate forward looking information in both the assessment of significant increase in credit risk and the measurements of ECL. Aegon Hypotheken considers forward looking information such as macro-economic factors (e.g. unemployment, GDP growth, interest rates and house prices) and economic forecasts. Based on assessments undertaken to date, Aegon Hypotheken expects no significant change in its mortgage loss reserve.

Hedge-accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting even when other elements of IFRS become mandatory on January 1, 2018. During the implementation project Aegon Hypotheken has decided to continue to apply hedge-accounting under IAS 39.

Disclosures

Future disclosures will be affected by this standard for classification and measurement (including business model and cash flow characteristics), impairments (12 months and lifetime expected credit losses) as well as for hedge-accounting.

Transition

The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no restatement of comparative periods.

<u>IFRS 15 Revenue from Contracts with Customers</u>

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). 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 Hypotheken 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 Hypotheken 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 interest 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 Hypotheken chose to apply the modified retrospective approach as transition method.

2.2. Basis of consolidation

2.2.1. Subsidiaries

The consolidated financial statements include the financial statements of Aegon Hypotheken and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Hypotheken has control. Aegon Hypotheken controls an entity when Aegon Hypotheken is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assessment of control is based on the substance of the relationship between Aegon Hypotheken and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the accounting principles of Aegon Hypotheken, which is consistent with IFRS. Transactions between subsidiaries of Aegon Hypotheken are eliminated. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the share of Aegon Hypotheken in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence within twelve months after the acquisition date, are recorded against goodwill. Aegon Hypotheken recognizes contingent considerations either as provision or as financial liability depending on the characteristics. Contingent considerations recognized as provisions are discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent consideration given in a business combination are recognized in the income statement. Contingent considerations recognized as financial liabilities are measured at fair value through profit or loss.

The identifiable assets, liabilities and contingent liabilities are stated at fair value at the moment control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

2.2.2. Structured entities

A structured entity is defined in IFRS 12 as "An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements." In these instances the tests and indicators to assess control provided by IFRS 10 have more focus on the purpose and design of the investee (with relation to the relevant activities that most significantly affect the structured entity) and the exposure to variable returns, which for structured entities lies in interests through e.g. derivatives, and will not be focused on entities that are controlled by voting rights.

Structured entities that are consolidated include certain mortgage backed securitization deals, where Aegon Hypotheken was involved in the design of the structured entities and also has the ability to use its power to affect the amount of the investee's returns. Other factors that contributed to the conclusion that consolidation of these entities was required include that fact that Aegon Hypotheken fully services the investees and can therefore influence the defaults of the mortgage portfolios and the fact that in these cases the majority of risks are maintained by Aegon Hypotheken.

2.3. Foreign exchange translation

The impact of foreign currency on the financial statements is considered immaterial as nearly all transactions take place in euro.

2.4. Offsetting of assets and liabilities

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

2.5. Financial assets

Financial assets, excluding derivatives, are recognized on the trade date when Aegon Hypotheken 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 Hypotheken; financial assets that are a derivative and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Hypotheken 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 Hypotheken 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.

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 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

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

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

Collateral

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

2.6. Derivatives

2.6.1. 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 Hypotheken considers the similarity of the characteristics of the embedded derivative and the host contract.

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

2.6.2. 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.

2.6.3. Hedge accounting

As part of its asset liability management, Aegon Hypotheken enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item. Aegon Hypotheken currently applies hedge accounting for fair value hedges.

<u>Fair value hedges</u>
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the income statement, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the income statement over the remaining duration of the original hedge or recognized directly when the hedged item is derecognized.

Aegon Hypotheken applies fair value hedge accounting to portfolio hedges of interest rate risk (fair value macro hedging) under the EU 'carve out' of IFRS. The EU 'carve out' macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting. Under the EU 'carve out', ineffectiveness in fair value hedge accounting only arises when the revised projection of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' to mortgage loans. Changes in the fair value of the derivatives are recognized in the profit and loss account, together with the fair value adjustment on the mortgages (hedged items) for the portion attributable to interest rate risk (the hedged risk).

2.7. Other assets and receivables

Other assets and receivables include trade and other receivables, prepaid expenses and accrued interest to date. 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.

2.8. 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.

2.9. Impairment of financial assets

Financial assets held at amortized cost 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 impairment assessment takes place periodically. As part of the assessment identification of payment difficulties and triggers that are likely to create future payment difficulties is taken place. 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 is at market value corrected for historical recovery rates. By nature there are risks and uncertainties involved in the identification process and the estimation of future cash flows. These include, but are not limited to, the risk that identification that the borrower will not meet all of its contractual obligations is not timely or complete and the risk that the value of collateral is estimated inaccurately. Aegon Hypotheken has established policies and procedures to ensure proper valuation of the impairment charge to mitigate these risks. Further reference is made to the risk management section in part 4.

2.10. 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. 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.

2.11. Long-term borrowings and group loans

Long-term borrowings and group loans are initially recognized at their fair value excluding accrued interest and including directly attributable incremental transaction costs and are subsequently carried at amortized cost using the effective interest rate method. Long-term borrowings and group loans are derecognized when Aegon Hypotheken's obligation under the contract expires or is discharged or cancelled.

2.12. Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

2.13. Assets and liabilities relating to employee benefits

Aegon Hypotheken itself does not have employees, no assets and liabilities relating to employee benefits are therefore recognized.

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 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 Hypotheken 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 Hypotheken 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 (Aegon N.V.).

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 Hypotheken's deferred tax position at each reporting period to determine if it is probable that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning opportunities it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews. The carrying amount is not discounted and reflects the expectations of Aegon Hypotheken 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. Interest 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 on financial assets is carried at fair value through profit or loss.

2.18. Fee and commission income

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

2.19. Results from financial transactions

Results from financial transactions include:

2.19.1. Realized gains and losses on financial investments

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

2.19.2. 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.

2.20. Commission and expenses

Commission, staff and administration expenses incurred are allocated to the period to which they relate.

2.21. 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.

2.22. 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.

2.23. 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. Accounting policies that are critical to the financial statement 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 of estimates

In 2017 Aegon Hypotheken has not implemented significant changes in estimates.

In 2016 Aegon Hypotheken B.V. refined the fair value calculation of its mortgage loans. The calculation since then includes information from consumer mortgage rates. This resulted in a decrease in the discount rate used for determination of the present value the future cash flows. The carrying value, at amortized cost, of Dutch mortgage loans on Aegon Hypotheken's balance sheet has not been impacted by the update of the fair value calculation. The fair value of Dutch mortgage loans has been impacted positively with EUR 111 million.

3.3. Determination of fair value and fair value hierarchy

The following is a description of the methods of Aegon Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken 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 Hypotheken, 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.

3.4. Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forward of unused tax losses and carry forwards of unused tax credits when in the judgment of management it is more likely than not that Aegon Hypotheken will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews the deferred tax positions of Aegon Hypotheken periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

3.5. Recognition of provisions

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

4. Risk management

4.1. Governance

The risk management of Aegon Hypotheken 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. For Aegon Hypotheken the risk management function has been designed with specific attention to operating and financial risks. Risk management principles and policies are embedded in the whole organization.

4.2. Product information

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

Aegon Hypotheken offers mortgage loans to Dutch citizens with a mortgage right on real estate, an apartment right or a long lease situated in the Netherlands. The mortgage loans comprises of one or more loan types, like an Interest Only Mortgage, (Bank) Savings Mortgage, Annuity Mortgage, (Universal) Life Mortgage etc. Almost all loans are sold through the intermediary channel, whereby strict standards and requirements are applied for these intermediaries. The mortgage underwriting is done by Aegon Hypotheken according to the Dutch insurance Code of Conduct.

The profit margin on mortgage loans consist of a spread between the client coupon and the funding rate, including risk spreads and cost spreads. The risk and cost spreads are added to the funding rate to cover the various risks related to the mortgage loans, like prepayment risk, credit risk and offer risk. The cost spreads are included to cover the various costs related to mortgage loans, like the cost of servicing the mortgage.

4.3. The risk management approach

4.3.1. IFRS sensitivities

Results of Aegon Hypotheken's sensitivity analysis are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each type of market risk, the analysis shows how net income and equity would 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 Hypotheken's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon Hypotheken's 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.

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 Hypotheken's future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon Hypotheken's future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting 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.

4.3.2. *Currency exchange rate risk*

Aegon Hypotheken has no currency exchange risk.

4.3.3. *Interest rate risk*

Aegon Hypotheken is exposed to interest rate risk since many of the mortgages it grants are fixed rate while the financing contracts are based on floating rates. Aegon Hypotheken's policy is that this interest rate risk must be limited on market consistent principles and it uses financial derivatives to hedge the net interest rate risk that arises from its investments and obligations, taking into account expected levels of prepayment. The use of derivatives is governed by the Aegon Group's Derivatives Use Policy.

For more information on derivatives, see note 4.3.10 'Derivatives risk'.

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

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

Sensitivity of interest rates

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curves on net income and equity. Although the interest risk is hedged by derivatives, decreases in interest rates will have a positive effect on shareholders' equity and a positive impact on net income as part of the derivatives are not included in the hedge accounting relationship. From an economic perspective there is no impact on net income and equity.

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

Parallel movement of yield curve	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	14.672	14.672	2.361	2.361
Shift down 100 basis points	-5.788	-5.788	-1.923	-1.923

The sensitivity of net income and shareholders' equity for parallel shifts in the yield curves has been increased following the revision of the hedging strategy of Aegon Hypotheken. Subsequently, the net derivative position not included in hedge accounting relationship has been increased. Since loans are not, other than derivatives, being revalued under IFRS, there is no interest sensitivity. Note that sensitivities are calculated without taking into account any floors in coupons which apply to part of the financing transactions.

4.3.4. Credit risk

Aegon Hypotheken invests in mortgage loans and bears the investment risk that the contract party will not repay the principal and interest due on the mortgage loan.

Aegon Hypotheken is exposed to credit risk on loans, mainly mortgage loans, and over-the-counter derivatives. It is possible that mortgage clients will be unable to meet their financial obligations for various reasons such as bankruptcy, unemployment or divorce. A period of excessive defaults or other declines in the value of these mortgage loans could have a strongly adverse effect on Aegon Hypotheken's operations, operating results and financial position.

Aegon Hypotheken mitigates the credit risk in derivative contracts with collateral and by using International Swaps and Derivatives Association (ISDA) agreements. The fair value of the derivatives is adjusted to the credit risk based on observable market spreads.

The table that follows shows the maximum exposure of Aegon Hypotheken to credit risk from investments in financial assets as well as derivatives, collateral held and net exposure. Please refer to note 22 'Commitment and contingencies' and note 23 'Transfers of financial assets' for further information on capital commitments and contingencies and on assets pledged, which may expose Aegon Hypotheken to credit risk.

<u>Positions in the balance sheet</u>

2017 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Mortgage loans	Real estate	Guarantees**	Master netting agreement	Surplus collateral	Total	
Mortgage loans*	2.732.303	10.945	-	3.510.227	14.942	-	-928.143	2.607.970	124.333
Private loans	20.799	-	20.799	-	-	-	-	20.799	-
Derivatives with pos. values	311.271	-	-	-	-	311.271	-	311.271	-
Long-term loans and group loans	591.762	-	356.703	-	-	235.059	-	591.762	-
Total	**3.656.135**	**10.945**	**377.502**	**3.510.227**	**14.942**	**546.330**	**-928.143**	**3.531.802**	**124.333**

*The base-adjustment of EUR 112 million has been excluded from the mortgages loans as this is 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	Mortgage loans	Real estate	Guarantees**	Master netting agreement	Surplus collateral	Total	
Mortgage loans*	2.810.950	11.116	-	3.247.323	53.983	-	-648.306	2.664.117	146.833
Private loans	26.607	-	22.607	-	-	-	-	22.607	4.000
Derivatives with pos. values	467.106	-	-	-	-	467.106	-	467.106	-
Long-term loans and group loans	724.791	-	455.073	-	-	269.718	-	724.791	-
Total	**4.029.454**	**11.116**	**477.680**	**3.247.323**	**53.983**	**736.824**	**-648.306**	**3.878.621**	**150.833**

*The base-adjustment of EUR 169 million has been excluded from the mortgages loans as this is 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.

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 Hypotheken's Dutch residential mortgage portfolio benefits from guarantees by a Dutch government-backed trust (Stichting Waarborgfonds Eigen Woning) through the Dutch Mortgage Guarantee program (NHG). These guarantees cover all principal losses, missed interest payments and foreclosure costs incurred upon termination and settlement of defaulted mortgage loans when lender-specific terms and conditions of the guarantee are met. When not fully met, the trust may pay claims in part or in full, depending on the severity of the breach of terms and conditions. For each specific loan, the guarantee amortizes in line with an equivalent annuity mortgage. When the remaining loan balance at default does not exceed the amortized guarantee, it covers the full loss under its terms and conditions. Any loan balance in excess of this decreasing guarantee profile serves as a first loss position for the lender. For NHG-backed mortgage loans originated after January 1, 2014, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

The 'surplus collateral' column represents the surplus value of individual mortgage loans (where the value of the real estate exceeds the value of the mortgage loan) as Aegon Hypotheken 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 Hypotheken has no assets received as non-cash collateral which can be sold or which themselves can serve as collateral without the owner of the assets being in default. Aegon Hypotheken receives cash collateral on positive OTC derivative positions and pays cash collateral on negative OTC derivative positions. See note 23 'Transfers of financial assets' for more information.

4.3.5. *Credit rating*
As Aegon Hypotheken mainly invests in mortgage loans, almost all of the assets of Aegon Hypotheken are not rated.

4.3.6. *Credit risk concentration*

The tables that follows present specific credit risk concentration information for the financial assets.

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

	2017	2016
Apartment	308.583	332.862
Retail	-	30
Other commercial	510	5.306
Residential	2.423.210	2.472.752
Total	**2.732.303**	**2.810.950**
Of which past due and / or impaired assets	22.676	28.352

Fair value of the mortgage loan portfolio:	2017	2016
Fair value mortgage loans	3.130.585	3.233.114
The LTV was approximately	73,1%	79,7%
The part of the portfolio that is government guaranteed	61,4%	68,2%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,1%	0,2%
Impairments (reversals) during the year	-312	898

4.3.7. *Inflation risk*

Aegon Hypotheken has limited exposure to inflation risk.

4.3.8. *Past due and impaired financial assets*

The tables that follow provide information on past due and impaired mortgage loans for Aegon Hypotheken. A mortgage loan is past due when a counterparty has failed to make a payment when it was due under the contract. A mortgage loan 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 Hypotheken takes the following factors into account when deciding whether to impair mortgage loans:

- 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; 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 mortgage loan is no longer considered to be impaired. When the terms and conditions of the mortgage loans have been renegotiated, the terms and conditions of the new agreement apply in determining whether the mortgage loans 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	10.376	22.656
Other	79	71
Total	**10.455**	**22.726**

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 0.5 million (2016: EUR 1.1 million).

Past due but not impaired financial assets

2017	0-6 months	6-12 months	> 1 year	2017
Mortgage loans	12.280	20	-	12.300
Total	**12.280**	**20**	**-**	**12.300**

2016	0-6 months	6-12 months	> 1 year	2016
Mortgage loans	5.697	-	-	5.697
Total	**5.697**	**-**	**-**	**5.697**

Due to changed regulations on the reduction of the maximum loan amount and the compulsory annuity repayment there remains less risk for Aegon Hypotheken. As a result impairment mortgage loans show a decrease and past due mortgage loans but not impaired showed a slight increase.

4.3.9. Equity market risk and other investments risk

Aegon Hypotheken has no exposure to equity markets.

4.3.10. Derivatives risk

Aegon Hypotheken uses financial derivatives, such as interest rate swaps to hedge interest risks relating to loans. Not all risks to which Aegon Hypotheken is exposed can be adequately managed using derivatives. In addition, a counterparty in a derivative contract may fail to meet its obligations towards Aegon Hypotheken. Either situation can have significant adverse consequences for Aegon Hypotheken's operations, operating results and financial position.

Aegon Hypotheken 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.

4.3.11. Liquidity risk

Liquidity risk is inherent in much of Aegon Hypotheken's activity. Each asset and liability has its own liquidity characteristics. Most assets and liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement. However, most of the assets of Aegon Hypotheken are mortgage loans, which are not highly liquid. If Aegon Hypotheken 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 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.

Investments in less liquid assets, such as mortgage loans, 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. 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.

Management uses this information for insight into the liquidity position and may, if necessary, make adjustments.
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. This assumes extreme withdrawals of liabilities as a result of an immediate and full letter downgrade of both Aegon's long-term financial health and short-term credit ratings. Furthermore, assets suffer an immediate capital market shock resulting in an initial inability to sell investments other than ‘highly liquid’ ones.
    a. At the same time, assets and liabilities are assumed to have a permanent 3% parallel increase in (risk-free) interest rate.
    b. In 2017 an entity specific stress scenario has been added in which a downward parallel interest rate shock is assessed.

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 Hypotheken 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	Total 2017
Borrowings and group loans	-	721.306	2.665.526	590.000	3.976.832
Other financial liabilities	7.465	120.443	-	-	127.908
Total	**7.465**	**841.749**	**2.665.526**	**590.000**	**4.104.740**
2016	On demand	< 1 year	1 < 5 year	5 < 10 year	Total 2016
Borrowings and group loans	-	727.954	2.772.495	340.000	3.840.449
Other financial liabilities	4.117	73.402	-	-	77.519
Total	**4.117**	**801.356**	**2.772.495**	**340.000**	**3.917.968**

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	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Cash inflows	49.733	198.534	298.174	253.106	799.548
Cash outflows	-96.137	-322.718	-357.702	-270.709	-1.047.265

2016	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Cash inflows	39.195	147.328	254.052	260.320	700.895
Cash outflows	-89.668	-304.684	-324.877	-294.140	-1.013.369

4.3.12. Funding risk

To fund its business Aegon Hypotheken is dependent on external and Aegon group funding. To maintain a strong funding base, diversification between institutional investors (through the Saecure program), banks (through the warehouse program) and Aegon group entities; and diversification between maturity dates of the outstanding borrowings is critical. Aegon Hypotheken’s strong funding base is furthermore based on the eligibility of mortgages as pledge for borrowings. It is therefore important to maintain a high quality mortgage portfolio with low delinquencies and favorable LTV ratios.

To meet its liquidity and solvency requirements more effective Aegon Hypotheken has revised its funding structure during 2016. The previously existing internal committed and uncommitted facilities have been replaced with a combination of long term secured and unsecured loans from Aegon Levensverzekering and Optas Pensioenen and a committed revolving credit facility from Aegon N.V.. The new funding structure leads to a sustainable long term business model for Aegon Hypotheken with more robust funding sources.

The long-term maturity of the mortgages requires a funding profile that matches this maturity. Aegon Hypotheken therefore entered into longer term loans as part of the Saecure program. These loans have an expected maturity derived from the FORD which stands for the First Optional Redemption Date. At this date Aegon Hypotheken has the first right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. Further funding is available from the undrawn part of the current facilities as per December 31, 2017, which are EUR 1.3 billion (2016: EUR 1.6 billion) from external warehouses and pre-funding facilities; and EUR 0.2 billion (2016: 0.4 billion) from the liquidity line of Aegon N.V. These facilities provide room for short-term liquidity needs. Given the room and the flexibility in the warehouse facilities, Aegon Hypotheken committed EUR 0.5 billion (2016: EUR 0 billion) of undrawn warehouse facilities to Aegon Levensverzekering. As December 31, 2017, this commitment was undrawn.

Given the stable funding base, own capital of Aegon Hypotheken could be used more efficiently. Therefore Aegon Hypotheken paid dividend amounting to EUR 125 million to Aegon Nederland in 2017. Aegon Hypotheken's solvency and liquidity position have been assessed as adequate during 2017.

4.3.13. Other risks

Legislation and regulation

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

Legal proceedings

Aegon Hypotheken 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 Hypotheken 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 Hypotheken 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 22.2 “Litigations and proceedings”.

5. Cash and cash equivalents

	2017	2016
Cash on hand and balances with banks	111.491	126.724
Total	**111.491**	**126.724**

The carrying amounts disclosed reasonably approximate the fair values at year-end. We refer to note 23 ‘Transfers of financial assets’ for more information on collateral.

6. Loans

2017	Loans	Fair value
Mortgage loans	2.844.122	3.130.585
Private loans	20.799	22.714
Other	79	79
At December 31	**2.865.000**	**3.153.378**

2016	Loans	Fair value
Mortgage loans	2.980.418	3.233.114
Private loans	26.607	28.132
Other	71	71
At December 31	**3.007.096**	**3.261.317**

	2017	2016
Current	263.097	202.988
Non-current	2.601.903	2.804.108
Total financial assets, excluding derivatives	**2.865.000**	**3.007.096**

Certain mortgage loans shown within the category loans are designated in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 112 million as at December 31, 2017 (2016: EUR 169 million). Total movement of the mortgage loan portfolio due to hedge accounting was EUR -/- 57 million during 2017 (2016: EUR 57 million). None of the financial assets have been reclassified during the financial year.

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

	2017	2016
At January 1	2.572	1.753
Addition charged to income statement	-	898
Reversal to income statement	-312	-
Amounts written off	-114	-78
At December 31	**2.147**	**2.572**

7. Derivatives

	Derivative asset		Derivative liability	
	2017	2016	2017	2016
Derivatives not designated in a hedge	309.725	464.292	374.047	504.728
Derivatives designated as fair value hedges	1.546	2.815	160.433	248.718
Total	**311.271**	**467.106**	**534.480**	**753.446**

	2017	2016
Current	-905	-468
Non-current	-222.304	-285.872
Total net derivatives	**-223.209**	**-286.340**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 0 'Fair values of assets and liabilities'.

<u>Derivatives not designated in a hedge</u>

	Derivative asset		Derivative liability	
	2017	2016	2017	2016
Derivatives held as an economic hedge	309.725	464.292	374.047	504.728
Total	**309.725**	**464.292**	**374.047**	**504.728**

Aegon Hypotheken uses derivative instruments as a part of its asset liability management strategy: the risk management of all assets and liabilities. They may relate to an existing asset or liability or a future reinvestment risk. Derivatives are classified as economic hedges to the extent that they do not qualify for hedge accounting or where Aegon Hypotheken has elected not to apply hedge accounting. In all cases, they are in accordance with internal risk guidelines and are closely monitored for continuing compliance with these guidelines.

Interest rate derivatives are used to manage interest risk positions. These contracts are designated as economic hedges with respect to these risks. The main types of derivatives used for this are interest rate swaps.

<u>Derivatives designated as fair value hedges</u>

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

	2017	2016
Fair value changes mortgage loans recognized in income statement under the EU carve-out	-48.610	61.775
Offset amount of fair value changes recognized on derivatives used as hedging instrument	59.356	-50.493
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**10.746**	**11.282**

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

	2017	2016
Presented as asset	1.546	2.815
Presented as liability	160.433	248.718
Total	**-158.887**	**-245.904**

8. Group loans

	2017	2016
Loan Aegon Levensverzekering N.V.	356.703	455.073
Loan Aegon Derivatives N.V.	235.059	269.718
At December 31	**591.762**	**724.791**
current	263.595	310.636
non-current	328.167	414.155
Total	**591.762**	**724.791**

The loan to Aegon Levensverzekering relates to SAECURE 14, since SAECURE 14 bought mortgage loans from Aegon Levensverzekering. However, under IFRS, these mortgage loans continue to be recognized on the balance sheet of Aegon Levensverzekering (no ‘derecognition’). As a consequence, Aegon Hypotheken has a receivable to Aegon Levensverzekering for this amount.

The loan with Aegon Derivatives N.V. (‘Aegon Derivatives’) is cash collateral received under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Hypotheken. Movements in collateral result from movements in market values on derivatives and is settled daily.

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

9. Other assets and receivables

	Note	2017	2016
Receivables	9.1	929.033	628.387
Accrued income	9.2	29.698	11.666
Total		**958.730**	**640.053**

9.1. Receivables

	2017	2016
Investment debtors	758.900	483.813
Receivables from policyholders	2.194	1.766
Current account with group companies	167.938	142.808
Total	**929.033**	**628.387**
Current	929.033	628.387
Non-current	-	-
Total	**929.033**	**628.387**

Included in investment debtors is a short term receivable to Dutch Mortgage Fund (DMF) of EUR 168 million (2016: EUR 133 million in relation to the mortgages originated to the fund. For external fee partners an amount of EUR 105 million (2016: EUR 0 million), for other investors for an amount of EUR 53 million (2016: EUR 13 million) and in the pipeline EUR 392 million (2016: EUR 319 million) has been recognized. Because of higher production and higher demand from external parties, other assets and receivables have increased in 2017 compared to year-end 2016

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

9.2. Accrued income

	2017	2016
Accrued interest	29.698	11.177
Prepaid expenses	-	489
At December 31	**29.698**	**11.666**

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

10. Equity

	2017	2016
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	150.380	239.652
Net income / (loss)	29.986	35.728
At December 31	**200.385**	**295.398**

The authorized share capital of EUR 90,000 is divided into 90 shares of EUR 1,000 nominal value each, of which 18 shares have been issued and fully paid. Aegon Hyptoheken paid dividend of EUR 125 million in 2017. No dividend was paid in 2016.

11. Borrowings and group loans

	2017	2016
Debentures and other loans	2.886.832	2.837.691
Loan Aegon N.V.	280.000	100.000
Loan Aegon Levensverzekering N.V.	510.000	602.758
Loan Optas Pensioenen N.V.	300.000	300.000
At December 31	**3.976.832**	**3.840.449**
current	721.305	727.954
non-current	3.255.527	3.112.495
Total	**3.976.832**	**3.840.449**

In 2016, Aegon Hypotheken changed its funding arrangement with the companies within the Aegon group by replacing uncommitted credit facilities of EUR 1,342 million and committed credit facilities of EUR 350 million, partly by secured and unsecured borrowings of in total EUR 810 million from Aegon Levensverzekering and Optas Pensioenen and partly by a committed credit facility of EUR 500 million (EUR 280 million drawn (2016: EUR 100 million) as per December 31, 2017) from its ultimate parent company Aegon. As part of new funding structure, Aegon Hypotheken pledged mortgage loans and pools of mortgage loans underlying to sub (e.g. junior) notes and subordinated loans in the warehouses held for own account for secured borrowings and pledged all its mortgage loans that are not already pledged otherwise to unsecured borrowings and revolving credit facilities. The secured and unsecured loans have a fixed rate, the revolving credit facility has a floating rate.

Saecure 12 was called at first option redemption date in the fourth quarter of 2017. As a result the loan from Aegon Levensverzekering was repaid and corresponding mortgages are no longer pledged. In 2016 Aegon Levensverzekering provided a loan of EUR 93 million in relation to Saecure 12 for which Aegon Hypotheken pledged mortgages of EUR 104 million.

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

11.1. Debentures and other long term loans

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

in EUR millions	Coupon rate	Coupon date	Issue / maturity	FORD	Legal maturity date	2017	2016
EUR 1.367 million 'SAECURE 14' RMBS Note	floating	quarterly	2014 / -	Jan. 2019	Jan. 2092	993	1.128
EUR 1.443 million 'SAECURE 15' RMBS Note	floating	quarterly	2014 / -	Jan. 2020	Jan. 2092	1.164	1.286
Loan facilities warehouse mortgage loans	floating	monthly	- / 2019	-	-	515	399
Loan facility pre funding mortgage loans	floating	monthly		-	-	214	24
Total						**2.887**	**2.838**

<u>Residential mortgage backed securities (RMBS)</u>
The RMBS notes were issued under the Dutch Saecure program. The net proceeds were used to finance a part of the existing Dutch mortgage portfolio of Aegon Hypotheken. The expected maturity of the RMBS notes is derived from the FORD which stands for the first optional redemption date. At this date Aegon Hypotheken has the first right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. All these notes are fully collateralized by mortgage loans which are part of the investments of Aegon Hypotheken. For the notes issued by Saecure 14, Aegon Hypotheken has received and repledged mortgages for an amount of EUR 415 million (2016: EUR 473 million) from Aegon Levensverzekering.

<u>Loan facilities warehouse mortgage loans</u>
Committed financing takes place in a ‘warehouse’ structure for which a special purpose entity (‘SPE’), Aegon Hypotheken Financiering B.V. (‘Aegon Hypotheken Financiering’), has been incorporated. At the end of 2017, Aegon Hypotheken borrowed EUR 515 million via this warehouse structure (2016: EUR 399 million). The interest to be paid is derived from Euribor rates with an additional spread. Aegon Hypotheken has a total of undrawn external committed financing arrangements available for a period of more than one year of EUR 935 million (2016: EUR 1,351 million). A floating interest rate is applicable on these financing arrangements when drawn and a commitment fee when not. Given the room and the flexibility in the warehouse facilities, Aegon Hypotheken committed EUR 0.5 billion of undrawn warehouse facilities to Aegon Levensverzekering. As December 31, 2017, this commitment was undrawn.

<u>Loan facility pre funding mortgage loans</u>
In Q3 2017 respectively Q2 2016 Aegon Hypotheken entered into loan agreements with third parties for temporarily funding of mortgages. These loans are secured by pipeline mortgage loans provided by Aegon Hypotheken. At year-end 2017 EUR 214 million (2016: EUR 24 million) has been drawn from EUR 550 million (2016: EUR 250 million) available under this facility. These facilities are based on Euribor and additional spread for the drawn part and a commitment fee for the undrawn part.

12. Deferred tax

	2017	2016
Deferred tax assets	1.351	1.042
Total net deferred tax liability / (asset)	**-1.351**	**-1.042**

Movement in deferred tax

	Total 2017	Total 2016
At January 1	-1.042	6.176
Charged to income statement	-309	-7.218
At December 31	**-1.351**	**-1.042**

The deferred tax relates to derivatives, base-adjustment from hedge accounting and fair value reserves on mortgage sales. 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.

13. Other liabilities and accruals

	Note	2017	2016
Other liabilities	13.1	86.885	56.078
Accruals	13.2	41.024	21.441
Total		**127.908**	**77.519**

13.1. Other liabilities

	2017	2016
Investment creditors	2.671	4.241
Income tax payable	12.197	-
Current account with group companies	43.707	-
Other creditors	28.310	51.837
Total	**86.885**	**56.078**
Current	86.885	56.078
	86.885	**56.078**

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

13.2. Accruals

This item relates to accrued interest with a term of less than one year. The carrying amount disclosed reasonably approximates the fair value at year-end.

14. Interest income

Interest Income	2017	2016
Mortgage loans and other loans	36.787	43.736
Total	**36.787**	**43.736**

Interest income consists of:

	2017	2016
Interest income out of:		
- Loans	88.521	97.334
- Other investments	-51.734	-53.598
Total	**36.787**	**43.736**

Interest income accrued on impaired financial assets	481	1.083
Interest income on financial assets that are not carried at fair value through profit or loss	51.734	53.598

Interest income out of other investments relates to the paying leg of interest rate swaps.

15. Fee and commission income

	2017	2016
Administration fee income	10.268	7.572
Total	**10.268**	**7.572**

16. Results from financial transactions

	2017	2016
Realized gains / (losses) on financial investments	11.806	22.959
Net fair value change of derivatives	14.548	1.484
Total	**26.354**	**24.443**

Realized gains and losses on financial investments

	2017	2016
Loans	11.806	22.959
Total	**11.806**	**22.959**

Net fair value change of derivatives comprise:

	2017	2016
Net fair value change on economic hedges where no hedge accounting is applied	3.802	-9.798
Total accounting hedge result of hedge transactions to which hedge accounting is applied	10.746	11.282
Total	**14.548**	**1.484**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2017	2016
Fair value changes mortgage loans recognized in income statement under the EU carve-out	-62.600	43.953
Offset amount of fair value changes recognized on derivatives used as hedging instrument	59.356	-50.493
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-3.244**	**-6.540**
Amortization of the base-adjustment	13.990	17.822
Total accounting hedge result	**10.746**	**11.282**

17. Commissions and expenses

	2017	2016
Administration expenses	16.616	15.863
Other	2.544	1.333
Total	**19.160**	**17.197**

Administration expenses and employee expenses

Aegon Hypotheken does not have any employees. Aegon Hypotheken is serviced by Aegon Levensverzekering and pays a service fee for services rendered. This service fee includes a compensation for administration expenses, such as head office expenses, incurred by Aegon Levensverzekering on behalf of Aegon Hypotheken.

Remuneration Board of Directors

The members of the Board of Directors of Aegon Hypotheken are also members of the Boards of the other entities within the Aegon Nederland Group, including the Board of Aegon Nederland. The members of the Board of Directors are employees of Aegon Nederland and receive their remuneration from 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 Hypotheken is not charged for expenses of Aegon Nederland's Board.

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 Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Hypotheken's independent public auditor during 2017 and audited these financial statements. The fees for services rendered to Aegon Hypotheken 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.

18. Impairment charges / (reversals)

The impairment charges of EUR -/- 312 thousand (2016: EUR 898 thousand) relate to the Loans portfolio.

19. Interest charges and related fees

	2017	2016
Borrowings	7.840	8.893
Short-term liabilities and deposits	6.741	1.125
Total	**14.581**	**10.019**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	14.581	10.019

20. Corporate income tax

	2017	2016
Current tax		
- current year	10.304	13.859
Deferred tax		
- origination / (reversal) of temporary differences	-309	-1.950
Income tax for the period (income) / charge	**9.995**	**11.909**

The temporary differences relate mainly to financial assets.

Reconciliation between standard and effective corporate income tax:

	2017	2016
Income before tax	39.981	47.638
Income tax calculated using weighted average applicable statutory rates	9.995	11.909
Income tax for the period (income) / charge	**9.995**	**11.909**

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

21. Fair value of assets and liabilities

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

21.1. Fair value hierarchy

Aegon Hypotheken holds derivatives that are measured at fair value. The derivatives, both assets and liabilities, both in 2017 and 2016 are considered Level II investments within the fair value hierarchy. During 2017 and 2016 there were no other financial instruments measured at fair value in the balance sheet of Aegon Hypotheken.

Significant transfers between Level I and II

Aegon Hypotheken's policy is to record transfers of assets and liabilities between Level I and Level II at their fair values as of the beginning of each reporting period. During 2017 and 2016 no significant amount of assets was transferred from Level I to Level II.

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.

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	2.844.122	3.130.585	-	-	3.130.585	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	20.799	22.714	-	44	22.670	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	2.980.418	3.233.114	-	-	3.233.114	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	26.607	28.132	-	4.019	24.113	Discounted cash flow	

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

21.1.1. Mortgage loans

For private loans and mortgage loans, the fair value used for disclosure purposes is estimated by discounting expected future cash flows based on current consumer market rates applicable to financial instruments with similar yield and maturity characteristics and risk free interest rate. An increase in discount rate and prepayment rates, would decrease the fair value of the mortgage loan portfolio.

21.1.2. Derivatives

Where quoted market prices are not available, other valuation techniques 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 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. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

Aegon Hypotheken normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[2] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Hypotheken or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

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

21.1.3. Other borrowings

Other borrowings are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). For the determination of the fair value of the borrowings, the level hierarchy as described by IFRS is used. The preferred method of obtaining the fair value of the fair value option bonds is the quoted price (Level I). In case markets are less liquid or the quoted prices are not available, an internal model is used, using parameters which are market observable (Level II). Aegon Hypotheken uses a discounted cash flow method including yield curves such as deposit rates, floating rate and 3-month swap rates.

21.2. 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.

[2] International Swaps and Derivatives Associations

	2017		2016	
	Trading	Designated	Trading	Designated
Investments for general account	-	111.819	-	169.469
Derivatives with positive values	309.725	1.546	464.292	2.815
Total financial assets at FVTPL	**309.725**	**113.365**	**464.292**	**172.283**

	2017		2016	
	Trading	Designated	Trading	Designated
Derivatives with negative values	374.047	160.433	504.728	248.718
Total financial liabilities at FVTPL	**374.047**	**160.433**	**504.728**	**248.718**

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	9.258	5.291	-18.894	20.378

22. Commitment and contingencies

22.1. Investments contracted

In the normal course of business, Aegon Hypotheken has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2018. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the statement of financial position. Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans.

Contracted purchases	2017	2016
Mortgage loans	392.776	319.635

Contracted sales	2017	2016
Mortgage loans	4.834	5.165

22.2. Litigations and proceedings

Aegon Hypotheken is involved in litigation in the ordinary course of business including claims for compensation of damage, penalties on top of the claims and class or group compensation. Aegon Hypotheken 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 Hypotheken will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

23. Transfers of financial assets

Transfers of financial assets occur when Aegon Hypotheken transfers contractual rights to receive cash flows of financial assets or when Aegon Hypotheken retains the contractual rights to receive the cash flows of the transferred financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in that arrangement.

In the normal course of business Aegon Hypotheken is involved among others in the following transactions:

1. Transferred financial assets that are not derecognized in their entirety. Repurchase activities; whereby Aegon Hypotheken receives cash for the transferred assets. The financial assets are legally (but not economically) transferred, but are not derecognized. The obligation to repay the cash received is recognized as a liability.
2. Transferred financial assets that are derecognized in their entirety and Aegon Hypotheken does not have a continuing involvement (normal sale);
3. Collateral accepted in the case of derivative transactions;
4. Collateral pledged in the case of (contingent) liabilities and derivative transactions.

The following disclosures provide details for transferred financial assets that are not derecognized in their entirety, transferred financial asset that are derecognized in their entirety, but where Aegon Hypotheken has a continuing involvement and assets accepted and pledged as collateral.

<u>Assets pledged</u>
Aegon Hypotheken pledges assets that are on its statement of financial position in relation to long-term borrowings and group loans. In addition, for its derivative position, Aegon Hypotheken posts cash as collateral.

These transactions are conducted under terms that are usual and customary to standard long-term borrowing and derivative transactions.

To the extent that cash collateral is paid, a receivable under 'Cash and cash equivalents' is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized.

As part of Aegon Hypotheken's mortgage loan funding program, EUR 2.5 billion (2016: EUR 2.7 billion) have been pledged as security for notes issued (refer to note **Error! Reference source not found.** 'Long-term borrowings and group loans'). In addition, EUR 0.4 billion (2016: EUR 0.5 billion) of mortgages received from Aegon Levensverzekering has been repledged for notes issued by Saecure 14. In relation to the group loans provided, Aegon Hypotheken pledged mortgage loans and pools of mortgage loans underlying to sub (e.g. junior) notes and subordinated loans in the warehouses held for own account for an amount of EUR 268 million (2016: EUR 286 million) for secured borrowings and pledged all its mortgage loans that are not already pledged otherwise to unsecured borrowings and revolving credit facilities.

24. Offsetting, enforceable master netting arrangements and similar arrangements

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

Financial assets and liabilities are offset in the statement of financial position when Aegon Hypotheken 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 Hypotheken mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements to facilitate Aegon Hypotheken's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Hypotheken or its counterparty. Transactions requiring Aegon Hypotheken or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing and derivative, as well as requirements determined by exchanges where the bank acts as intermediary.

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

2017	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral received (excluding surplus collateral)	**Net amount**
Derivatives	311.271	-	**311.271**	311.271	-	**-**
At December 31	**311.271**	**-**	**311.271**	**311.271**	**-**	**-**

2016	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position: Financial instruments	Related amounts not set off in the statements of financial position: Cash collateral received (excluding surplus collateral)	**Net amount**
Derivatives	467.106	-	**467.106**	467.106	-	**-**
At December 31	**467.106**	**-**	**467.106**	**467.106**	**-**	**-**

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	534.480	-	**534.480**	311.271	223.209	**-**
At December 31	**534.480**	**-**	**534.480**	**311.271**	**223.209**	**-**

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	753.446	-	**753.446**	467.106	286.340	**-**
At December 31	**753.446**	**-**	**753.446**	**467.106**	**286.340**	**-**

25. Group companies

Aegon Hypotheken holds no shares in Aegon Hypotheken Financiering vested in Amsterdam. 100% of the shares in Aegon Hypotheken Financiering are held by Stichting Aegon Hypotheken Financiering Holding. However, as Aegon Hypotheken has 'control' over this special purpose entity, Aegon Hypotheken Financiering is consolidated. In case of a possible termination of the warehouse construction, Stichting Aegon Hypotheken Financiering Holding will be eliminated and any remaining balance will flow to Aegon Hypotheken.

In addition to Aegon Hypotheken Financiering the following structured entities are group companies and have been consolidated:

- SAECURE 14 NHG B.V. ('Saecure 14')
- SAECURE 15 B.V. ('Saecure 15')

The structured entities relate to the securitization of mortgage loans. The contractual agreements with these entities do not include provisions in which Aegon Hypotheken could be required to provide financial support in certain circumstances. Aegon Hypotheken has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

26. Related party transactions

Aegon Hypotheken, as part of the Aegon N.V. group, has entered in a range of transactions with other members of the group. The main ones are described below.

Aegon Hypotheken has uncommitted financing arrangements with Aegon Levensverzekering N.V.. At December 31, 2017 Aegon Hypotheken had borrowed EUR 810 million (2016: EUR 810 million) from Aegon Levensverzekering N.V.. The interest on these arrangements is floating. For the new arrangements, mortgages and mortgage pools underlying to sub (e.g. junior) notes have been pledged.

The committed financing arrangement Aegon Levensverzekering had with Aegon Hypotheken of EUR 250 million has been terminated November 30, 2016. The arrangement was based Euribor.

The Committed finance arrangements that Aegon Hypotheken had expired in 2016 and replaced by a liquidity line from Aegon N.V. of EUR 500 million of which EUR 280 million (2016: EUR 100 million) was from group companies). The interest on these arrangements was floating. For these financing arrangements mortgages were pledged.

Given the room and the flexibility in the warehouse facilities, Aegon Hypotheken committed EUR 0.5 billion of undrawn warehouse facilities to Aegon Levensverzekering. As December 31, 2017, this commitment was undrawn.

In relation to Saecure 12, Aegon Levensverzekering has provided a loan of EUR 93 million in 2016. For this loan it received and repledged mortgages from Aegon Hypotheken of EUR 104 million in 2016. During 2017 the mortgages from Saecure 12 were repurchased at FORD.

For the notes issued by Saecure 14, Aegon Hypotheken has received and repledged mortgages for an amount of EUR 415 million (2016: EUR 473 million) from Aegon Levensverzekering.

Except for the financing transactions listed above and sales transactions, the majority of the transactions with group companies run through Aegon Nederland and are settled through the current account with Aegon Nederland. At the end of the financial year, Aegon Hypotheken had a current account receivable of EUR 124 million with Aegon Nederland (2016: current account receivable of EUR 143 million). An interest charge of EUR -0.6 million on the current account was recognized in the income statement in 2017 (2016: interest charge of EUR 1.7 million).

During 2017, Aegon Hypotheken sold in total EUR 208 million (2016: EUR 338 million) of mortgage loans to Aegon Levensverzekering. These sales generated a result of EUR 12 million (2016: EUR 27 million).

On the other hand, Aegon Hypotheken bought back a portfolio mortgage loans for an amount of EUR 208 million (2016: EUR 71 million) from subsidiaries of Aegon Nederland.

During 2017, Aegon Hypotheken originated mortgage loans for account of the Dutch Mortgage Fund, managed by Aegon Investment Management B.V., for in total EUR 3.3 billion (2016: EUR 3.3 billion).

During 2017, Aegon Hypotheken paid EUR 2.9 million to Aegon Bank in relation to the bank saving mortgages (2016: EUR 2.1 million) and EUR 7.1 million to Aegon Levensverzekering (2016: EUR 7.2 million) for managing the mortgage loan portfolio.

Aegon Hypotheken uses treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Hypotheken uses to mitigate interest rate risk are concluded with Aegon Derivatives. The expenses are included in the charge from Aegon Levensverzekering for management of the mortgage portfolio.

Aegon Hypotheken 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 Hypotheken is jointly and severally liable for all tax liabilities of the entire tax group.

Optas Pensioenen had uncommitted financing arrangements with Aegon Hypotheken, a group company of the parent Aegon Nederland. As at December 31, 2017. Optas Pensioenen lent EUR 300 million (2016: EUR 300 million) (fixed interest rate) to Aegon Hypotheken replacing floating rate facilities amounting to EUR 270 million. For the new arrangements, mortgages and mortgage pools underlying to sub (e.g. junior) notes have been pledged.

27. Post reporting date events

No significant events have taken place after the balance sheet date.

The Hague, April 30, 2018

The Board of Directors,

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

Financial Statements 2017 of Aegon Hypotheken B.V.

Report of the Board of Directors
See page 5 of the annual report for the Report of the Board of Directors.

Statement of financial position

(before profit appropriation)

	Note	31-12-2017	31-12-2016
Amounts in EUR thousand			
Assets			
Cash and cash equivalents	3	111.491	126.724
Loans	4	2.865.000	3.007.096
Derivatives	5	156.856	203.452
Long-term loans and group loans	6	502.805	551.723
Deferred tax assets	7	1.351	1.042
Other assets and receivables	8	958.730	640.053
Total assets		**4.596.233**	**4.530.090**
Equity and liabilities			
Equity	9		
- Share capital		18	18
- Share premium		20.000	20.000
- Retained earnings		150.380	239.652
- Net income / (loss)		29.986	35.728
Total equity		**200.385**	**295.398**
Derivatives	5	380.064	489.791
Borrowings and group loans	10	3.887.876	3.667.381
Other liabilities and accruals	11	127.908	77.519
Total liabilities		**4.395.848**	**4.234.692**
Total equity and liabilities		**4.596.233**	**4.530.090**

Income statement

(ending 31 December 2017)

Amounts in EUR thousand	2017	2016
Other income / (loss) after tax	29.986	35.728
Net income / (loss)	**29.986**	**35.728**

Notes to the financial statements

1. General information

Aegon Hypotheken incorporated and domiciled in the Netherlands, is a limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV The Hague, with registration number 52054454. Aegon Hypotheken is a wholly owned subsidiary of Aegon Nederland in The Hague. Aegon Hypotheken's ultimate holding company is Aegon N.V. in The Hague. Aegon Hypotheken offers and services mortgages to Dutch consumers. Aegon Hypotheken obtains the funding it needs to finance those loans from companies within the Aegon group (internal funding) and through financing agreements with professional parties outside the Aegon group (external funding). These financing arrangements include arrangements where Aegon Hypotheken offers institutional investors the ability to invest in Dutch mortgages granted by Aegon Hypotheken for the account and risk of these institutional investors.

2. Summary of significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Dutch Civil Code. Based on article 2:362.8 of the Dutch Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as used for the preparation of the consolidated financial statements of Aegon Hypotheken.

With regard to the income statement of Aegon Hypotheken, article 9:402 of Book 2 of the Dutch Civil Code has been applied, allowing a simplified format. For the accounting policies we refer to the accounting policies set out in note 2 'Summary of significant accounting policies' of the consolidated financial statements. These also apply to the separate financial statements unless stated otherwise.

2.2. Group companies

The group companies are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

2.3. Equity

Refer to note 2.10 'Equity' of the consolidated financial statements for more information on equity.

3. Cash and cash equivalents

Refer to note 5 'Cash and cash equivalents' of the consolidated financial statements for more information.

4. Loans

Refer to note 6 'Loans' of the consolidated financial statements for more information on loans.

5. Derivatives

Certain derivative positions closed between Aegon Hypotheken and the Special purpose entity ('SPE') are recognized in the consolidated financial statements, but cannot be recognized in the single financial statements of Aegon Hypotheken. This is due to the fact that the mortgage loans transferred to the SPE are not derecognized in the financial statements. The derivatives that have prevented the derecognition are therefore not recognized. Refer to note 7 'Derivatives' of the consolidated financial statements for more information.

6. Long term loans and group loans

	2017	2016
Loan Aegon Derivatives N.V.	235.059	269.718
Loan Aegon Hypotheken Financiering B.V.	53.629	58.488
Loan Saecure 14 and 15	214.117	223.517
At December 31	**502.805**	**551.723**
current	235.059	283.962
non-current	267.746	267.761
Total	**502.805**	**551.723**

The loan with Aegon Derivatives is cash collateral received under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Hypotheken. Movements in collateral result from movements in market values on derivatives and is settled daily.

The loan to Aegon Hypotheken Financiering of EUR 54 million (2016: EUR 58 million) is related to the warehouse structure for mortgage loans and is subordinated. As per December 31, 2016, Aegon Hypotheken had loans from other Aegon entities for a total amount of EUR 350 million. These loans had a floating interest rate (Euribor) and were considered to be non-current. With the revision of the funding structure, these loans have been terminated and replaced by secured and unsecured borrowings of in total EUR 810 million from Aegon Levensverzekering and Optas Pensioenen.

The Saecure loans of EUR 214 million (2016: EUR 223 million) pertain to the cash deposits held in the SPEs as pledge. In 2017, certain junior notes held for own account have been pledged as security for loans granted by Aegon group companies and have been recognized additionally in the financial position with a corresponding liability.

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

7. Deferred tax

We refer to note 12 'Deferred tax' of the consolidated financial statements for more information on the deferred tax.

8. Other assets and receivables

Refer to note 9 'Other assets and receivables' of the consolidated financial statements for more information.

9. Equity

	2017	2016
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	150.380	239.652
Net income / (loss)	29.986	35.728
At December 31	**200.385**	**295.398**

2017	Share capital	Share premium	Retained earnings	Net income / (loss)	Total
At January 1	**18**	**20.000**	**239.652**	**35.728**	**259.670**
Net income prior year retained	-	-	35.728	-35.728	-
Net income current year	-	-	-	29.986	29.986
Total net income / (loss)	**-**	**-**	**35.728**	**29.986**	**65.714**
Dividend paid on common shares	-	-	-125.000	-	-125.000
Equity changes from relation with shareholder	**-**	**-**	**-125.000**	**-**	**-125.000**
At December 31	**18**	**20.000**	**150.380**	**29.986**	**200.385**

2016	Share capital	Share premium	Retained earnings	Net income / (loss)	Total
At January 1	**18**	**20.000**	**201.740**	**37.912**	**221.758**
Net income prior year retained	-	-	37.912	-37.912	-
Net income current year	-	-	-	35.728	35.728
Total net income / (loss)	**-**	**-**	**37.912**	**35.728**	**73.640**
At December 31	**18**	**20.000**	**239.652**	**35.728**	**295.398**

Refer to note 0 ‘Equity’ of the consolidated financial statements for more information on equity.

10. Borrowings and group loans

	2017	2016
Loan Aegon N.V.	280.000	100.000
Loan Aegon Levensverzekering N.V.	510.000	510.000
Loan Optas Pensioenen N.V.	300.000	300.000
Loan Saecures	2.015.047	2.275.493
Loan Aegon Hypotheken Financiering B.V.	568.829	457.888
Loan facility pre funding mortgage loans	214.000	24.000
At December 31	**3.887.876**	**3.667.381**
current	476.986	587.202
non-current	3.410.890	3.080.179
Total	**3.887.876**	**3.667.381**

Refer to note **Error! Reference source not found.** ‘Borrowings and group loans’ of the consolidated financial statements for more information. The amounts payable to the SPE’s (Aegon Hypotheken Financiering, Saecure 14 and Saecure 15) are to be paid because, under IFRS, the mortgage loans sold to the SPE’s continue to be recognized on the balance sheet of Aegon Hypotheken (no ‘derecognition’). Beneficial ownership of the portfolio remains with Aegon Hypotheken after sale of the mortgage loans.

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

11. Other liabilities and accruals

We refer to note 13 ‘Other liabilities and accruals’ of the consolidated financial statements for more information on other liabilities and accruals.

12. Related party transactions

The following transactions within the Aegon N.V. group are of significance from the perspective of the separate financial statements of Aegon Hypotheken.

Until calling of Saecure 12, Aegon Hypotheken received interest on mortgages from customers, which were transferred to this Saecure. Saecure 12 was an SPV controlled by Aegon Levensverzekering in which Aegon Hypotheken had a minority stake. The recharge amounts to EUR 3.5 million (2016: EUR 5.5 million). Aegon Hypotheken received a fee for servicing the mortgages of EUR 52 thousand (2016: EUR 183 thousand). The amounts not paid to external note holders are recharged from Saecure 12 to Aegon Hypotheken. The amount recharged was EUR 2.6 million (2016: EUR 4.3 million).

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 14. The recharge amounts to EUR 36 million (2016: EUR 39.5 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 1,176 thousand (2016: EUR 1,270 thousand). The amounts not paid to external note holders are recharged from Saecure and warehouses to Aegon Hypotheken. The amount recharged was EUR 32.1 million (2016: EUR 34.7 million).

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 15. The recharge amounts to EUR 56.7 million (2016: EUR 61.8 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 2,047 thousand (2016: EUR 2,211 thousand). The amounts not paid to external note holders are recharged from Saecure 15 to Aegon Hypotheken. The amount recharged was EUR 53.2 million (2016: EUR 57.2 million).

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to a warehouse. The recharge amounts to EUR 18.9 million (2016: EUR 19.6 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 36 thousand (2016: EUR 36 thousand). The amounts not paid to external note holders are recharged from a warehouse to Aegon Hypotheken. The amount recharged was EUR 12.4 million (2016: EUR 16.2 million).

Refer to note 26 ‘Related party transactions’ of the consolidated financial statements for more information on the related party transactions.

13. Remuneration Board of Directors

Refer to note 17 ‘Commissions and expenses’ of the consolidated financial statements for more information on the remuneration on the Board of Directors.

14. Remuneration Independent Auditor

Refer to note 17 ‘Commissions and expenses’ of the consolidated financial statements for more information on the remuneration on the independent Auditor.

15. Commitments and contingencies

Refer to note 22 ‘Commitments and contingencies’ of the consolidated financial statements for more information on commitment and contingencies.

16. Post reporting date events

No significant events have taken place after the balance sheet date.

17. 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 30 million to the retained earnings.

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

Provisions in the articles of association regarding profit appropriation

Appropriation of profit will be determined in accordance with article 17 of the Articles of Association of Aegon Hypotheken B.V. The relevant provisions read as follows:

<u>Article 17 Profit and distributions</u>

1. The general meeting is authorized to appropriate the profit established by adoption of the financial statements and to set distributions, subject to the restrictions set by law.
2. The authority of the general meeting of shareholders to set distributions applies to distributions charged to the profit not taken to the reserves and distributions charged to any reserve, and also to distributions when the financial statements are adopted and interim distributions.
3. A resolution to make a distribution shall have no effect until approved by the board. The board shall withhold approval if it knows or reasonably ought to know that the company would be unable to pay it due liabilities following the distribution.

Independent auditor’s report

Independent auditor's report

To: the general meeting of Aegon Hypotheken B.V.

Report on the financial statements 2017

Our opinion

In our opinion Aegon Hypotheken B.V.'s financial statements give a true and fair view of the financial position of the Company and the Group 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 Hypotheken B.V., The Hague ('the Company'). The financial statements include the consolidated financial statements of Aegon Hypotheken B.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The financial statements comprise:

- the consolidated and company statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the 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 Hypotheken B.V. in accordance with 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).

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 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 and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the board of directors

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.

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 Hypotheken B.V.

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

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

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

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

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the board of directors 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.