Annual report 2017

Optas Pensioenen N.V.

Optas Pensioenen N.V.
Aegonplein 50
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Contents

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Report of the Board of Directors

1. General information

Optas Pensioenen N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV The Hague with registration number KvK 24185771. Optas Pensioenen N.V. ('Optas Pensioenen') is a 100% subsidiary of Aegon Levensverzekering N.V. which in turn is a 100% subsidiary of Aegon Nederland N.V. The ultimate parent of the group is Aegon N.V. in The Hague.

Optas Pensioenen is a medium sized insurance company specialized in employee insurance products with as core business the insurance of group pensions.

1.1. Purpose and mission statement

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

Strategy

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

- Execute on our plans to further reduce cost in Optas Pensioenen and make those cost more variable
- Split between service units linked book and active sales in individual life
- Establish new business models and products in the group life business (PPI, APF, variable annuities, banking, services)
- Manage carefully the risks in the declining benefit group life book

This will keep our contribution margin on an acceptable level. Furthermore Optas Pensioenen is enabling corporate customers having Defined Contribution contracts in Aegon Levensverzekering, to transfer per contract date to Aegon PPI or Cappital. Basically this part of the book is closed for new sales, leading to lower cost per policy. We foresee that in line with the further expected growth of the APF more customers will switch from Defined Benefit to the APF.

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

1.2. Main activities, products, services and geographic areas

Optas Pensioenen is incorporated and domiciled in the Netherlands, who has been and is active in pensions insurance and operations. Optas Pensioenen operates from The Hague.

Optas Pensioenen is a medium sized insurance company specialized in the insurance for group pension. It concerns a so-called 'closed portfolio': the products are not available in the market anymore.

1.3. Legal company and group structure

Optas Pensioenen is a public limited liability company organized under Dutch law. Optas Pensioenen is a wholly-owned subsidiary of Aegon Levensverzekering N.V. ('Aegon Levensverzekering'), The Hague. Aegon Levensverzekering is a part of the Aegon Nederland Group. The ultimate parent company of Optas Pensioenen is Aegon N.V., which is a listed entity.

1.4. Internal organizational structure

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

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

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

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

1.5. Employees

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

1.6. Key elements of policy

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

- Further improvement of the control environment and culture ("In Control")
- Follow-up of the independent external auditor management letter and board report
- Financial results (Solvency II & IFRS)
  - Capitalization considerations
  - ALM: strategic asset allocation
- Own Risk Solvency Assessment (ORSA)
- Redesign of the organizational structure for the execution of the Aegon NL Future Fit strategy
- HR related subjects such as 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)
- Optimizing synergy between the different participants in the pension landscape within Aegon NL
- Macroeconomics and Life market developments

1.7. Composition of the Board of Directors and gender diversity

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

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

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

1.8. Remuneration policy

The remuneration policy is centralized at Aegon Nederland level and also applies to Optas Pensioenen.

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 Dutch Central Bank ('De Nederlandsche Bank or DNB'), the Aegon Nederland remuneration policy is in line with the requirements stipulated in the regulation.

Aegon Nederland's remuneration policy applies to the Board of Directors, management teams, senior management and other employees of Aegon Nederland and complies with the applicable national and international regulations. The policy is in accordance with the Aegon Group Global

Remuneration Framework (AGGRF) drawn up by Aegon N.V. and has due regard for developments in society.

The remuneration policy is in line with the strategy, vision, core values and risk appetite of Aegon Nederland. This means that the level of variable remuneration for employees is discussed in meetings of the Supervisory Board, as well as the financial performance criteria which are applied to variable remuneration. These are adjusted for the estimated risks and cost of capital, whereby the variable remuneration components are in line with Aegon Nederland's long-term objectives.

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

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

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

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

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

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

The remuneration policy and its implementation was discussed in meetings held by the Supervisory Board on several occasions during 2017. The Supervisory Board also discussed the level of variable remuneration. As of 2016, the so-called bonus pool has been established and applied for the performance year 2017. The Supervisory Board approved the 2017 variable remuneration targets for Identified Staff within the framework set out in the AGGRF. It also approved payment of the variable remuneration to Identified Staff relating to prior years that vested in 2017, with due regard to the assessments required under the AGGRF. This remuneration was within Aegon Nederland's remuneration policy. No retention payments were made. There were no welcome and exit arrangements granted in 2017 outside of the policy. The total income of members of the Management Team is regularly assessed against the compensation package for similar positions in other financial companies in the Netherlands. When setting the remuneration policy for the Board of Directors, the aim is for total compensation levels to be slightly below the median of comparable positions in the market. The total income of the Board of Directors is in line with the remuneration policy.

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

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

1.9. Regulation and supervision

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The aim of the Wft is to embed the cross-sectorial functional approach within the Dutch supervisory system. This approach replaced the prior sectorial approach to financial supervision, which was embedded in the previous legislation. The supervision of financial institutions pursuant to the Wft rests with the 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. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank ('ECB').

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

1.10. Business developments

Business Line Wholesale uses two risk carriers with a license (Wft Leven-vergunning) for its group pension. These are Aegon Levensverzekering N.V. and Optas With a few exceptions, the business developments and strategy of Optas are the same as the strategy of Aegon Levensverzekering N.V. when it comes to group pension and everything else resulting from that.

Optas will not, or only exceptionally, accept new group pension business. Optas Pensioenen NV has in fact become a service book. Therefore the paragraphs on business developments and strategy are alike. The portfolio shrinks because employers increasingly opt for a different pension provider within Aegon on termination of their group pension contract with Optas, for example at one of the PPIs, or go outside of Aegon.

In the coalition agreement of the new cabinet much attention is paid to a new pension system. The most important points here are:

- the abolition of the average pay system
- Introduction of a flat premium with decreasing pension accumulation
- Personal pension assets and more freedom of choice
- The possibility that self-employed people can join voluntarily.

The aim is to have agreement with the social partners in early 2018 on the further details.

In September 2016 a new law for variable annuities entered into force. This law introduces for a participant in a defined contribution scheme an additional option (a variable annuity) at the start of the decumulation phase. When you choose for a variable annuity during the whole payment period (from the retirement date to death) the amount of your pension depends on:

- How your investments will perform;
- The increase or decrease in interest rates;
- How much longevity has risen (or decreased).

Due to the same law for variable annuities, participants in DC plans must already be offered the choice during the accrual phase whether they want to choose for a fixed or variable annuity from the retirement date so that, if necessary the life cycles can be adjusted accordingly.

2. Financial information

2.1. Developments during the year

Net income
The net income for 2017 was EUR 11 million, which is a decrease in relation to the net income of EUR 65 million in 2016, mainly due to the change in valuation of liabilities for insurance and investment contracts.

Revenues
The revenues decreased by EUR 21 million, which is caused by lower premium income of EUR 34 million, mainly due to the lower premium income for recurring premiums, compensated by EUR 12 million higher investment income.

Results from financial transactions
The results from financial transactions decreased by EUR 155 million from a positive result of EUR 137 million in 2016 to a negative result of EUR 38 million in 2017. This is mainly caused by higher interest rates compare to prior year. This lead to lower fair value movements of derivatives. The derivatives are held to hedge the guarantee provision, which also decreased significantly in value in 2017.

Policyholder claims and benefits
The policyholder claims and benefits are EUR 143 million lower compared to 2016. This is mainly caused by a change in valuation of liabilities for insurance and investment contracts of EUR -/- 149 million. The changes in valuation of liabilities for insurance and investment contracts is the result of fair value changes of the guarantee provision and insurance contracts for account of policyholders as a result of increase in interest rates. This change is due to the decrease of the guarantee provision, as a result of higher interest rates in 2017.

Commissions and expenses
The commissions and expenses were EUR 1 million lower than in 2016, in line with the shrinking portfolio.

Shareholders' equity
Shareholders' equity at December 31, 2017 amounts to EUR 2,379 million compared to EUR 2,368 million at year-end 2016. The increase is mainly caused by the positive net income over 2017 (EUR 11 million).

Cash flows and funding
During 2017 the net cash inflow decreased with EUR 285 million (2016: decrease EUR 752 million). This decrease is almost completely attributable to a net decrease in cash from operating activities (EUR 535 million), offset by a redemption of group loans in 2016 (-/- EUR 250 million) This relates to redemption in 2016 of the funding related to Aegon Hypotheken. At year-end 2016 Optas Pensioenen is funded with equity and had no significant other funding sources.

Circumstances that impact future income and results
The main drivers of future income and results are interest rate developments and market- and demographic developments. No significant changes are expected for the following year regarding investing, financing and personnel. Furthermore, Optas Pensioenen did not perform significant activities regarding research and development during the year, nor expects to do so in the near future.

2.2. Solvency II

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

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

Optas Pensioenen N.V. is subject to prudential supervision of DNB.

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

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

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

As per December 31, 2017, Optas Pensioenen N.V.'s capital position is:

	31-12-2017*	31-12-2016
Own Funds	1.410	1.212
Partial Internal Model SCR	196	224
Solvency II ratio	721%	540%

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

The SCR of Optas Pensioenen has decreased over 2017 mainly due to the implementation of approved major model changes to Aegon's PIM, positive market movements and management actions including the shift from corporate to government bonds and additional hedging with derivatives.

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

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

Optas Pensioenen N.V. operates in excess of this requirement.

The Solvency ratios as disclosed in this section represent Aegon's estimates and are not final until filed with the regulator and subject to supervisory review. Solvency II capital ratios are still subject to final interpretations of Solvency II regulations.
The lowering of UFR from 4,2% to 4,05% would result in an estimated impact of 7% decrease of the Solvency II ratio. In addition, discussions are ongoing with respect to the interpretation/substantiation of certain elements in the technical provisions and SCR.

The capitalization of Optas Pensioenen N.V. is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. The Solvency II SCR target range, which is a self-imposed target range, for Optas Pensioenen N.V. is 165% - 235%. The capitalization of Optas Pensioenen N.V. is above this target range as extracting this surplus would trigger the removal of the tax exempt status of Optas Pensioenen N.V.

3. Main risks and uncertainties

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

3.3.1. *Advising on risk-related matters*

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

3.3.2. *Supporting and facilitating*

- Developing and maintaining the ERM framework for identifying, measuring and managing all material risks the Company is exposed to as defined in Aegon'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

3.4. Challenging and monitoring

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

3.5. Lines of defense

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

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

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

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

3.6. 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.

3.7. 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.

3.7.1. Strategic risks

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

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

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

3.7.2. *Regulatory and compliance risks*

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

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

3.7.3. *Reporting risk*

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

3.7.4. *Modeling risk*

Modeling risk includes flawed and/or insufficiently documented methods used in model design, or incorrect model coding or calculations caused by change management failure, flawed or insufficient model development and testing procedures. 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.

3.7.5. *Outsourcing risk*

Outsourcing risk includes discontinuity of outsourced services e.g. bankruptcy, disruption of services, or standards of service level agreements not being met. Possible misuse of both the ability and capability of the outsourcing/ supplier party is perceived as a specific Outsourcing Risk. 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.

3.7.6. *Information security risk*

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

Aegon protects and continually 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.

3.7.7. *Credit risk*

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

3.7.8. *Equity market risk and other investment risks*

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

3.7.9. *Interest rate risk*

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

3.7.10. Liquidity risk

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

3.7.11. Underwriting risk

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

3.8. Internal Audit

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

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

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

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

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

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

3.9. Asset and Liability Management and Financial instruments

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

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

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

Aegon Nederland's Risk & Capital Committee, which meets at least once a month, determines and monitors the capital position, the balance sheet as well as the market value income statement of Optas Pensioenen. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on hedging strategies to reduce interest rate and equity risks, to manage and possibly hedge actuarial risks, and to decide on the need for securitizations of residential mortgage portfolios in order to improve the liquidity and funding position of Optas Pensioenen.

4. Corporate Governance

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

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

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

The ultimate holding company of Aegon Nederland, Aegon N.V., 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). This is reflected in the corporate governance of Aegon Nederland.

Governance principles

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

Accountability

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

Supervisory Board

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

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

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

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

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

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

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

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

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

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

Duties and working methods

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

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

Board of Directors

Membership

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

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

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

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

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

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

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

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

Duties and working methods

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

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

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

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

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

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

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

5. Corporate social responsibility

5.1. General

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

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

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

5.2. Environment

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

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

5.3. Social

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

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

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

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

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

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

5.4. Economic

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

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

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

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

6. Outlook

6.1. Developments

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

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

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

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

6.2. Post reporting date events and expectations

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

The Hague, 30 April, 2018

The Board of Directors,

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

Report of the Supervisory Board

1. General

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

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

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

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

2. Subjects discussed during the meetings

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

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

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

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

4. Risk and Audit Committee

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

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

5. Remuneration Committee

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

6. Members of the Supervisory Board

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

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

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

The Hague, 30 April, 2018

The Supervisory Board,

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

Financial statements 2017 of Optas Pensioenen N.V.

Statement of financial position

(before profit appropriation)

	Note	31-12-2017	31-12-2016
Amounts in EUR thousand			
Assets			
Cash and cash equivalents	5	1.633.443	1.166.365
Investments	6	2.733.528	3.166.648
Investments for account of policyholders	7	739.619	750.873
Derivatives	8	72.786	129.070
Long-term loans and group loans	9	1.221.874	1.167.451
Other assets and receivables	10	38.783	206.079
Total assets		**6.440.032**	**6.586.487**
Equity and liabilities			
Equity			
- Share capital		460	460
- Revaluation reserves		-	-
- Retained earnings		2.367.879	2.302.457
- Net income / (loss)		10.885	65.422
	11	**2.379.224**	**2.368.339**
Insurance contracts	12	3.077.180	3.165.675
Insurance contracts for account of policyholders	13	746.423	755.544
Derivatives	8	213.144	239.202
Other liabilities and accruals	14	24.062	57.727
Total liabilities		**4.060.809**	**4.218.148**
Total equity and liabilities		**6.440.032**	**6.586.487**

Income statement

(ending 31 December 2017)

	Note	2017	2016
Amounts in EUR thousand			
Revenues			
Premium income	15	60.879	94.947
Investment income	16	132.923	119.928
Fee and commission income	17	2.998	3.099
Total revenues		**196.800**	**217.974**
Income from reinsurance ceded		-	-662
Results from financial transactions	18	-37.733	137.106
Total income		**159.067**	**354.418**
Charges			
Premiums to reinsurers	15	-	16
Policyholder claims and benefits	19	132.014	274.827
Profit sharing		-72	426
Commissions and expenses	21	11.123	11.787
Impairment charges / (reversals)	22	-267	-755
Interest charges and related fees	23	5.386	2.696
Total charges		**148.182**	**288.996**
Net income / (loss)		**10.885**	**65.422**
Net income / (loss) attributable to the parent company		**10.885**	**65.422**

Statement of comprehensive income

(ending 31 December 2017)

	Note	2017	2016
Amounts in EUR thousand			
Net income		**10.885**	**65.422**
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	12	2.492	-35.891
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	12	-2.492	-7.019
Total other comprehensive income for the period		**-**	**-42.909**
Total comprehensive income / (loss)		**10.885**	**22.512**
Total comprehensive income attributable to the parent company		**10.885**	**22.512**

Total comprehensive income is fully attributable to Aegon Levensverzekering N.V., the parent company of Optas Pensioenen N.V..

Statement of changes in equity

Amounts in EUR thousand

2017

	Share capital	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	460	-	2.302.457	65.422	2.368.339
Net income / (loss) prior year retained	-	-	65.422	-65.422	-
Net income / (loss) current year	-	-	-	10.885	10.885
Total comprehensive income / (loss)	**-**	**-**	**65.422**	**-54.537**	**10.885**
At December 31	**460**	**-**	**2.367.879**	**10.885**	**2.379.224**

2016

	Share capital	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	460	42.909	2.196.677	105.780	2.345.827
Net income / (loss) prior year retained	-	-	105.780	-105.780	-
Net income / (loss) current year	-	-	-	65.422	65.422
Other comprehensive income / (loss)	-	-42.909	-	-	-42.909
Total comprehensive income / (loss)	**-**	**-42.909**	**105.780**	**-40.358**	**22.512**
At December 31	**460**	**-**	**2.302.457**	**65.422**	**2.368.339**

Cash flow statement

(ending 31 December 2017)

Amounts in EUR thousand	Note	2017	2016
Income / (loss) before tax		**10.885**	**65.422**
Results from financial transactions	18	37.733	-137.106
Amortization and depreciation		38.337	42.723
Impairment losses / (reversals)	21	-267	-755
Adjustments of non-cash items		**75.802**	**-95.137**
Insurance liabilities	12	-88.495	46.691
Insurance liabilities for account of policyholders	13	-9.120	41.392
Accrued expenses and other liabilities	14	-33.665	28.065
Accrued income and prepayments	10	167.297	386.365
Shadow accounting	11	34.084	-49.904
Changes in accruals		**70.100**	**452.609**
Purchase of investments (other than money market investments)	6	-121.674	-535.482
Purchase of derivatives	8	15.332	-58.166
Disposal of investments (other than money market investments)	6	478.645	796.483
Disposal of derivatives	8	-25.462	85.137
Net purchase of investments for account of policyholders	7	17.674	302
Additions of group loans	9	-54.423	-
Redemption of group loans	9	-	291.118
Cash flow movements on operating items not reflected in income		**310.091**	**579.392**
Other		200	-47
Net cash flows from operating activities		**467.077**	**1.002.238**

	Note	2017	2016
Net cash flows from investing activities		**-**	**-**
Redemption of group loans	9	-	-250.000
Net cash flows from financing activities		**-**	**-250.000**
Net increase / (decrease) in cash and cash equivalents		**467.077**	**752.238**
Cash and cash equivalents at the beginning of the year	5	1.166.365	414.127
Cash and cash equivalents at the end of the year	**5**	**1.633.443**	**1.166.365**

Reconciliation of liabilities arising from financing activities

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

	2017	2016
Interest received (excluding derivatives)	118.673	173.743
Interest paid (excluding derivatives)	5.386	2.715
Interest derivatives received / (paid)	11.419	-10.546
Dividend received	7.319	-

Notes to the financial statements

1. General information

Optas Pensioenen N.V., incorporated and domiciled in the Netherlands, is a public 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 KvK 24185771. Optas Pensioenen N.V. (or Optas Pensioenen) is a 100% subsidiary of Aegon Levensverzekering N.V. which in turn is a 100% subsidiary of Aegon Nederland N.V. The ultimate parent of the group is Aegon N.V. in The Hague.

Optas Pensioenen is a medium sized insurance company specialized in employee insurance products with as core business the insurance of group pensions, with a focus on its origination as a pension fund in the harbor industry.

2. Summary of significant accounting policies

2.1. Basis of presentation

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

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

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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred policy acquisition costs, value of business acquired and other purchased intangible assets, goodwill, policyholders claims and benefits, insurance guarantees, pension plans, corporate income taxes and the potential effects of resolving litigation matters. Until medio 2016 Optas Pensioenen applied fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS. As of medio of 2017 Optas Pensioenen stopped applying fair value hedge accounting.

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

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

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

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

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

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

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

IFRS 9 Financial Instruments

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard was endorsed by the European Union in September 2016. IFRS 15 has replaced IAS 18 Revenue, as well as other IFRIC and SIC interpretations regarding revenue unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The standard outlines the principles an entity shall apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Transition Resource Group (TRG). The amendments are intended to clarify the requirements in IFRS 15, not to change the standard. IFRS 15 and the amendments will be effective for Optas Pensioenen 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.

Optas Pensioenen has evaluated the impact that adoption of this standard is expected to have on the financial statements and came to the conclusion that this impact will be very limited because insurance revenue is not in scope of IFRS 15 and because the other types of revenue are already compliant with this standard. Since IFRS 15 will have very limited impact on the financial statements, Optas Pensioenen chose to apply the modified retrospective approach as transition method.

IFRS 17 Insurance Contracts

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

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

2.2. Foreign exchange translation

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

2.3. Offsetting of assets and liabilities

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

2.4. Cash and cash equivalents

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

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

2.5. Investments

General account investments comprise financial assets (excluding derivatives).The accounting policies of derivatives are presented in note 2.7 ‘Derivatives’.

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

Classification

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

Financial assets with fixed or determinable payments, that are not quoted in an active market and that Optas Pensioenen does not intend to sell in the near future are classified as loans. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as available-for-sale.

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

Measurement

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

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

Amortized cost

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

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

Fair value

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

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

Derecognition

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

Financial assets of which Optas Pensioenen has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Optas Pensioenen'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.

Securities lending and repurchase agreements

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

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

2.6. Investments for account of policyholders

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

2.7. Derivatives

2.7.1. Definition

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

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

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

2.7.2. Measurement

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

2.7.3. Hedge accounting

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

2.8. Reinsurance assets

Reinsurance contracts are contracts entered into by Optas Pensioenen in order to receive compensation for claims/benefits incurred on contracts written by Optas Pensioenen (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Optas Pensioenen is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying insurance contracts will continue to be reported on the statement of financial position during contractual term of the underlying contracts.

Reinsurance premiums, commissions and claim settlements are accounted for in the same way as the original contracts for which the reinsurance was concluded. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

2.9. Other assets and receivables

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

2.10. Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinite useful life that are not amortized are tested at least annually.

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

2.10.1. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. For goodwill and intangible assets with an indefinite life, an impairment test is performed at least once a year or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset’s value in use and its fair value less cost of disposal. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties. The valuation utilizes the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.

Impairment losses are charged to shareholders’ equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset’s recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement.

The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets' recoverable amounts.

2.10.2. Impairment of debt instruments

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

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

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

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

2.10.3. Impairment of loans

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

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

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

2.10.4. Impairment of equity instruments

For equity instruments, objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and which change indicates that the cost of the investment in the equity instrument may not be fully recovered.

A significant or prolonged decline in fair value below initial cost is also considered objective evidence of impairment and results in a loss being recognized in the income statement. Significant or prolonged decline is defined by Optas Pensioenen as an unrealized loss position for generally more than six months or a fair value below 80% of the cost price of the investment. Equity investments are impaired to the asset’s fair value and any unrealized gain or loss previously recognized in shareholders’ equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement.

If an available-for-sale equity security is impaired based upon Optas Pensioenen’s qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon Optas Pensioenen’s impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments. Impairment losses on equity instruments cannot be reversed.

2.10.5. Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer’s current and expected future financial conditions plus any collateral held in trust for Optas Pensioenen’s benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognized in the income statement.

2.11. Equity

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

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

2.12. Insurance contracts

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

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

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

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

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

a) the amount of revenue can be measured reliably:

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

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

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

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

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

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

2.12.1. Life insurance contracts

Life insurance contracts are insurance contracts with life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

Liabilities arising from traditional life insurance products that are offered by Optas Pensioenen, particularly those with fixed and guaranteed account terms, are typically measured using the net premium method. Under this method, the liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on current assumptions, although for the discount rate a fixed 3% or 4% is used. Furthermore, the liability for life insurance comprises reserves for unearned premiums and accrued annuity benefits payable.

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

Terms and conditions, including participation features are considered when establishing the insurance liabilities. Where Optas Pensioenen has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.12.4 ‘Embedded derivatives’ or, if bifurcated from the host contract, as described in note 2.7 ‘Derivatives’.

2.12.2. Deferred interest contracts

A rebate granted and/or future interest compensation granted during the year is a form of profit sharing whereby Optas Pensioenen applies a correction to the premium payable based on the expected (surplus or deficit) interest that will be earned on the contract. The expected interest is calculated with reference to a portfolio of government bonds. The rebate can be subject to additional conditions concerning actual returns or the continuation of the policy for a specified number of years.

Rebates granted and/or future interest compensation granted during the year that are expected to be recovered in future periods are deferred and amortized on a straight line basis as the surplus or deficit interest is realized. The amortization is recognized in the income statement in ‘Policyholder claims and benefits’. Interest rebates form part of the insurance contract liability.

Deferred rebates granted and/or future interest compensation granted during the year are derecognized when the related contracts are settled or disposed of.

2.12.3. Life insurance contracts for account of policyholders

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

2.12.4. Embedded derivatives

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

Guaranteed minimum benefits
Certain life insurance contracts, issued by Optas Pensioenen, contain guaranteed minimum benefits. Bifurcated guaranteed minimum benefits are classified as derivatives. An additional liability is established for guaranteed minimum investment returns on group pension plans with profit sharing and on traditional insurance contracts with profit sharing based on an external interest index, that are not bifurcated. These guarantees are measured at fair value.

2.12.5. Shadow accounting

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

2.12.6. Liability Adequacy Testing

At each reporting date the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of VOBA and DPAC, is assessed using a liability adequacy test.

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

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

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

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

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

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

2.13. Borrowings and group loans

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. Borrowings and group loans are derecognized when Optas Pensioenen's obligation under the contract expires or is discharged or cancelled.

2.14. Assets and liabilities relating to employee benefits

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

2.15. Tax assets and liabilities

Optas Pensioenen is tax exempt.

2.16. 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.

2.17. 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.

2.18. Premium income and premium outgoing reinsurance

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

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

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

2.19. Investment income

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

2.20. Fee and commission income

Fees and commissions from investment management services and mutual funds, services where Optas Pensioenen 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.

2.21. Income from reinsurance ceded

Reinsurance claims are recognized as income when the related gross insurance claim is recognized in accordance with terms and conditions of the corresponding insurance contract.

2.22. Policyholders claims and benefits

Policyholders claims and benefits consists of claims and benefits paid to policyholders, including benefits in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts.

2.23. Results from financial transactions

Results from financial transactions include:

2.23.1. Net fair value change of general account financial investments at FVTPL, other than derivatives

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

2.23.2. Realized gains and losses on financial investments

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

2.23.3. Net fair value change of derivatives

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

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

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

2.23.5. Net foreign currency result

Net foreign currency result comprises net foreign currency gains and losses.

2.24. Profit sharing

Profit sharing comprises the in the financial year reserved amounts for profit-sharing to policyholders.

2.25. Commission and expenses

Expenses made by Aegon Nederland are recharged to its subsidiaries to the extent that these expenses relate to the activities of the subsidiary.

2.26. 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.

2.27. Corporate income tax

Optas Pensioenen is exempted from corporate income tax.

2.28. Post reporting date events

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

3. Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Those estimates are inherently subject to change and actual results will not could differ materially from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, investments (please refer to paragraph 2.5), derivatives (please refer to paragraph 2.7), insurance contracts (please refer to paragraph 2.12) and the potential effects of legal or constructive obligations (please refer to contingent assets and liabilities 2.17). Accounting policies that are critical to the financial statements presentation and that require complex estimates or significant judgment are described in the following sections.

3.1. Going Concern

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

3.2. Changes in estimates

Optas Pensioenen updated the mortality tables and experience factors during 2017. This resulted a decrease of the guarantee provision of EUR 5 million.

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

The liability for life insurance contracts with guaranteed or fixed account terms is generally based on current assumptions or on the assumptions established at the inception of the contract. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows (including investment returns). To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity see also note 2.12.6 'Liability Adequacy Testing'.

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

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

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

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

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

Actuarial assumption and model updates

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

3.3.1. Actuarial and economic assumptions

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

Mortality tables

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

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

For the liability adequacy test Optas uses best estimate assumptions regarding mortality (which take into account expected future changes in life expectancy: the Aegon prospective mortality table), morbidity, expenses, lapse, inflation and lapse. In 2017 several model refinements have taken place as part of the regular cycle of methodology and assumption setting. Main changes include an update of the population mortality methodology, mortality experience factors, maintenance expense assumption update and related model update and investment expense assumption update. The impact of these changes was an increase of the LAT margin of approximately EUR 3 million.

Investment returns

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

Expenses

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

3.4. Determination of fair value and fair value hierarchy

The following is a description of the methods of Optas Pensioenen 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.

Optas Pensioenen 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 Optas Pensioenen 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. Optas Pensioenen 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 Optas Pensioenen, 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.

4. Risk management

4.1. Governance

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

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

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

4.2. Capital management and solvency

Introduction
As from January 1, 2016 the Solvency II regulatory framework was introduced.

Please note that numbers and ratios related to Solvency II as disclosed in this paragraph represent Optas Pensioenen's estimate and are not final until filed with the regulator and subjected to supervisory review. Solvency II capital ratios are also still subjected to the evolving interpretations of Solvency II regulations.

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

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

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

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

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

As per December 31, 2017, Optas Pensioenen's capital position is:

	31-12-2017*	31-12-2016
Own Funds	1.410	1.212
Partial Internal Model SCR	196	224
Solvency II ratio	721%	540%

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

	31-12-2017*	31-12-2016
Shareholders' Equity (IFRS)	2.379	2.368
Revaluations	-120	-142
Own funds restrictions	-850	-1.014
Available own funds	1.410	1.212

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

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

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

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

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

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

Capital management

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

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

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

The target range for Optas Pensioenen N.V. is set at 165 – 235% (2016: 130 – 150%). As per December 31, 2017, the capitalization of Optas Pensioenen N.V. is above this target range as extracting this surplus would trigger the removal of the tax exempt status of Optas Pensioenen N.V..

Capital quality
All capital of Optas Pensioenen qualifies as unrestricted Tier 1 capital. Available own funds are equal to eligible own funds.

4.3. Product information

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

4.3.1. Insurance products for general account

Optas Pensioenen bears the insurance and investment risk on products for general account. The entity realizes results on interest, mortality, morbidity, lapses and expenses or a combination of them.

Traditional life insurance

The traditional life insurance offered by Optas Pensioenen is mainly term and whole life insurance and pension and annuity policies.

General

A significant risk with the sale of traditional life insurance is mortality risk. The main determinants that can affect the frequency and timing of benefits are epidemics, natural or man-made disasters or a general deterioration in death rates as a result of changes in lifestyle. The insured mortality risk can be forecast reasonably reliable in normal circumstances by stringent underwriting criteria and the diversification benefits obtained from insuring a large number of insured persons. The underwriting level used by the company depends on the materiality of the mortality risk in relation to other product features, the insured amount and the cost/benefit analysis of each product.

In addition to mortality risk, Optas Pensioenen's pension and annuity activities also bear a significant longevity risk; people are living longer due to better medical care and improved living conditions.

Investing future recurring premiums and reinvestments at a market interest rate below the one incorporated in the actuarial assumptions is also a risk. Certain products also include a minimum interest guarantee that exposes Optas Pensioenen to interest rate risk if low interest rates persist for a long time.

Optas Pensioenen's policy on entering into insurance policies is designed to ensure that the risks accepted are sufficiently diversified in terms of the type of risk and benefit levels.

Term and whole life insurance

This type of insurance pays out death benefits in the event of death of the insured during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the policyholder. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profit sharing features which are based on external indices or return on related assets.

Pension and annuity insurance

This category includes products in the accumulation phase and in the payout phase. Payout commences at a date determined in the policy and usually continues until the death of the insured or the beneficiary. Premiums are paid at inception of the policy or during its accumulation phase. The contracts contain implicit minimum guarantees of 3% or 4%.

Accident and health insurance

Optas Pensioenen offers disability insurance. It does not offer products with extended health cover.

4.3.2. Life insurance for account of policyholders

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

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

Separate account group contracts

Separate account group contracts are large contracts holders which have an individually determined asset investment portfolio underlying the pension contract. The contracts are written with and without guarantee. The applicable guarantee usually consists of profit sharing being the minimum of the actuarial interest of either 3% or 4% or the realized return (on an amortized cost basis). If profit sharing turns into a loss, the minimum guarantee becomes effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. For guarantee contracts at market value, income at market value is monitored and the discount rate depends on the rate at inception of the contract.

In general, the guarantee is dependent on the lives of the insured so that their pension benefit is guaranteed. Large contract holders also share in the underwriting results (mortality and disability). The contract term is usually five years and the premiums are fixed for that period. With separate accounts there is a guaranteed benefit for the employees. Optas Pensioenen also bears a significant longevity risk with these group contracts.

Unit-linked insurance

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

4.4. The risk management approach

4.4.1. IFRS sensitivities

Results of Optas Pensioenen’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 be 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 Optas Pensioenen’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 Optas Pensioenen’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.

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

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

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

The sensitivity analysis below solely contains investments for general account and guarantees issued by Optas Pensioenen. Investments for risk of policyholders are for the account and risk of third parties and do not lead to an increase in Optas Pensioenen’s exposures, other than in the form of possible guarantees. See note 8 ‘Derivatives’ and note 23 ‘Guarantees’ for more information on the guarantees issued.

4.4.2. *Currency exchange rate risk*

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

4.4.3. *Interest rate risk*

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

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

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

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

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

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

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

Parallel movement of yield curve	2017 Estimated approximate effect		2016 Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	39.472	2.723	3.221	3.221
Shift down 100 basis points	-5.276	-5.276	-25.471	-20.950

The liability adequacy test showed a deficit in 2017 (and 2016). An upward shock would lead to a reduction of the deficit of the liability adequacy test, thus to a partial reversal of the accounted deficit, positively impacting equity.

In 2017 and 2016 part of the deficit in the liability adequacy test was financed through net income. An upward shock will therefore positively impact net income as the declined deficit will be partially reversed through net income. In 2017 a smaller part of the LAT deficit can be absorbed by the revaluation reserve in an upward scenario, explaining the increase of the impact on net income compared to 2016.

A downward shock would lead to a further deficit in the liability adequacy test, negatively impacting Equity. Compared to 2016 the impact of the occurring deficit is smaller than the positive impact on equity of increased market values of investments.

4.4.4. Credit risk

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

The table that follows shows the maximum exposure of Optas Pensioenen to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 25 ‘Commitment and contingencies and note 26 ‘Transfers of financial assets’ for more information on capital commitments and on assets pledged which may expose Optas Pensioenen to credit risk.

Positions for general account in the balance sheet

2017 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received						Net exposure
		Cash	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Debt securities	1.457.200	-	-	-	-	-	-	1.457.200
Mortgage loans *	999.173	17.591	1.204.966	33.004	-	-308.513	947.048	52.125
Private loans	242.726	-	-	-	-	-	-	242.726
Other loans	46	-	-	-	-	-	-	46
Derivatives with pos. values	72.786	-	-	-	72.786	-	72.786	-
Long-term loans and group loans	1.221.874	-	-	-	-	-	-	1.221.874
Total	**3.993.805**	**17.591**	**1.204.966**	**33.004**	**72.786**	**-308.513**	**1.019.834**	**2.973.970**

*The base-adjustment of EUR 34 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
**Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

2016 Amounts in EUR thousand	Maximum exposure credit risk	Collateral received						Net exposure
		Cash	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Debt securities	1.723.334	-	-	-	-	-	-	1.723.334
Mortgage loans *	1.137.824	18.265	1.221.053	65.671	-	-261.944	1.043.046	94.778
Private loans	264.576	-	-	-	-	-	-	264.576
Other loans	42	-	-	-	-	-	-	42
Derivatives with pos. values	129.070	-	-	-	129.070	-	129.070	-
Long-term loans and group loans	1.167.451	-	-	-	-	-	-	1.167.451
Total	**4.422.298**	**18.265**	**1.221.053**	**65.671**	**129.070**	**-261.944**	**1.172.115**	**3.250.182**

*The base-adjustment of EUR 41 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
**Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value

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 Optas Pensioenen'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, 2015, a 10% lender-incurred haircut applies on realized losses on each defaulted loan.

The 'surplus collateral' column represents the surplus value of individual mortgage loans (where the value of the real estate exceeds the value of the mortgage loan) as Optas Pensioenen 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.

Reinsurance assets
The collateral related to the reinsurance assets include assets in trust that are held by the reinsurer for the benefit of Aegon. The assets in trust can be accessed to pay policyholder benefits in the event the reinsurers fail to perform under the terms of their contract.

Collateral
Optas Pensioenen 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.

Optas Pensioenen also receives cash collateral or other financial assets for financial assets that have been transferred to another party under reverse repurchase agreements and securities lending transactions. See note 26 'Transfers of financial assets' for more information.

Credit risk management

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

Optas Pensioenen operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. These limits are set by Aegon N.V. and also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Optas Pensioenen's internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. The policy is reviewed regularly. During 2017 there has been one breach regarding CNLP, where for one counterparty the CNLP limit of EUR 135 million was exceeded by EUR 60 million. This breach was the result of an internal downgrade of the counterparty, which led to a lower limit. Subsequently, the exposure was reduced to be in line with this new, lower limit. This breach, which was resolved within the quarter, was reported to the local Risk & Capital Committee (RCC) and did not require reporting to the Global RCC.

The ratings distribution of the general account investments is presented in the table in note 4.4.5 'Credit rating'. Optas Pensioenen's level long-term counterparty exposure limits, are as follows:

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

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

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

4.4.5. *Credit rating*

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

Investments for general account and reinsurance assets by rating

2017	Amortized cost	Fair value	Total 2017
AAA	242.726	955.999	1.198.725
AA	-	275.151	275.151
A	-	150.462	150.462
BBB	-	143.852	143.852
CCC or lower	-	435	435
Assets not rated	1.033.602	4.087	1.037.689
Total on balance credit exposure	**1.276.328**	**1.529.986**	**2.806.314**
Of which past due and / or impaired assets	20.588	-	20.588

2016	Amortized cost	Fair value	Total 2016
AAA	264.576	1.187.808	1.452.384
AA	-	285.006	285.006
A	-	238.683	238.683
BBB	-	113.750	113.750
BB	-	1.902	1.902
B	-	398	398
Assets not rated	1.178.737	24.858	1.203.595
Total on balance credit exposure	**1.443.313**	**1.852.404**	**3.295.717**
Of which past due and / or impaired assets	28.662	-	28.662

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

4.4.6. *Credit risk concentration*

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

Credit risk concentration – debt securities and money market and short-term investments

	2017	2016
ABSs- Collateralized Debt Obligations (CDOs)	66.150	84.187
ABSs- Other	6.127	28.262
Residential mortgage backed securities (RMBSs)	1.129	-
Total investments in unconsolidated structured entities	**73.405**	**112.449**
Financial - Banking	1.219	1.250
Financial - Other	27.685	48.499
Industrial	79.068	75.006
Utility	5.144	11.592
Sovereign exposure	1.270.679	1.474.538
Total	**1.383.795**	**1.610.885**

Credit risk concentration – mortgage loans

	2017	2016
Apartment	167.013	207.126
Retail	45	66
Other commercial	2.051	2.281
Residential	830.063	928.351
Total	**999.173**	**1.137.824**
Of which past due and / or impaired assets	20.542	28.620

Fair value of the mortgage loan portfolio:	2017	2016
Fair value mortgage loans	1.082.321	1.230.965
The LTV was approximately	82,5%	90,2%
The part of the portfolio that is government guaranteed	68,9%	70,0%
Delinquency's in the portfolio (defined as 60 days in arrears)	0,4%	0,6%
Impairments (reversals) during the year	-267	-755

Unconsolidated structured entities

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

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

2017	Number of entities	Carrying amount
EUR 0 < 10 million	14	45.087
> EUR 10 < 25 million	2	28.318
At December 31	**16**	**73.405**

2016	Number of entities	Carrying amount
EUR 0 < 10 million	26	78.766
> EUR 10 < 25 million	2	33.683
At December 31	**28**	**112.449**

Optas Pensioenen has limited investments in unconsolidated structured securities (such as ABSs). These unconsolidated structured securities are presented in the line item "Investments" of the statement of financial position. For unconsolidated structured entities in which Optas Pensioenen has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflect the carrying values recognized in the statement of financial position of Optas Pensioenen's interests in unconsolidated structured entities. Optas Pensioenen did not recognize other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

Type of asset in unconsolidated entity	2017 Interest income	Total gains and losses	**Total**	**Investments**
Residential mortgage backed securities	18	-	**18**	1.129
Asset Backed Securities	849	124	**973**	66.150
ABS's - Other	64	61	**125**	6.127
Total	**931**	**185**	**1.115**	**73.405**

Type of asset in unconsolidated entity	2016 Interest income	Total gains and losses	**Total**	**Investments**
Asset Backed Securities	567	22	**588**	84.187
ABS's - Other	486	-	**486**	28.262
Total	**1.053**	**22**	**1.074**	**112.449**

4.4.7. Past due and impaired financial assets

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

Optas Pensioenen takes the following factors into account when deciding whether to impair financial assets:

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

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

At year-end, no collateral, except that for mortgage loans, was held for financial assets which were past due or which had undergone individual impairment.

The carrying amount of the assets that are (partly) impaired is:

Impaired financial assets

	2017	2016
Mortgage loans	14.917	25.801
Other	46	42
Total	**14.963**	**25.843**

The carrying amount of the impaired financial assets is approximately equal to the fair value. The interest income from impaired assets was EUR 0.7 million (2016: EUR 1.3 million).

Debt securities

Optas Pensioenen regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows.

Past due but not impaired financial assets

2017	0-6 months	> 1 year	2017
Mortgage loans	5.503	122	5.625
Total	**5.503**	**122**	**5.625**

2016	0-6 months	> 1 year	2016
Mortgage loans	2.671	148	2.819
Total	**2.671**	**148**	**2.819**

4.4.8. *Equity market risk and other investments risk*

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

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

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

Sensitivity analysis of net income and equity to equity markets

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

	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Equity increase 10%	-391	-391	668	668
Equity decrease 10%	-1.725	-1.725	-2.732	-2.732
Equity increase 20%	-2.549	-2.549	-471	-471
Equity decrease 20%	-5.901	-5.901	-7.749	-7.749

Optas Pensioenen uses derivatives to lower Solvency II capital requirements for 'Equity Risk' leading to increase and reversed sensitivity of net income and equity for changes in equity markets.

Unit-linked insurance products and guarantees

Market risk is run on equity-related products where money is invested in funds selected by customers. These products include unit-linked insurance products. Although the risk is largely borne by the customer, a lower investment result may lead to a contraction in the management fee received by Optas Pensioenen on the investment balance on these products.

Furthermore some products offer a minimum return or guarantees depending on the survival of the policyholders or continuation of the policy. Optas Pensioenen runs risk if the return falls below this guaranteed level, so that additional provisions have to be formed for guaranteed future benefits, which means a reduction in net income and shareholders' equity.
Some savings and investment products may also lose popularity because of fluctuating equity prices or a poor market climate and this can lead to a lower level of business and income.

4.4.9. Derivatives risk

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

Optas Pensioenen 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. See note 23 'Guarantees' for more detailed disclosures.

4.4.10. Liquidity risk

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

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

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

The liquidity position is tested in the following scenarios:

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

The stressed liquidity scenario is described below.

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

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

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

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

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

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

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

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

Results of the coverage ratios
Optas Pensioenen holds EUR 1,271 million (2016: EUR 1,475 million) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The before mentioned amounts are based upon Optas Pensioenen internally used definitions when testing the liquidity.

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

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

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

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Optas Pensioenen 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, Optas Pensioenen 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, Optas Pensioenen 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	5 < 10 year	Total 2017
Other financial liabilities	16.884	7.178	-	24.062
Total	**16.884**	**7.178**	**-**	**24.062**

2016	On demand	< 1 year	5 < 10 year	Total 2016
Other financial liabilities	1.613	55.139	975	57.727
Total	**1.613**	**55.139**	**975**	**57.727**

Expected undiscounted cash flows relating to insurance and investment contracts

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

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

The liability amount in the financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash flows disclosed here are greater than the corresponding obligations on the notes 12 'Insurance contracts' and note 13 'Insurance contracts for account of policyholders'.

2017	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2017
Insurance contracts	123.235	488.977	599.365	2.517.208	3.728.786
Insurance contracts for account of policyholders	69.669	193.371	180.185	419.851	863.076
Total	**192.904**	**682.348**	**779.550**	**2.937.059**	**4.591.861**

2016	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Insurance contracts	119.973	494.030	614.733	2.617.347	3.846.082
Insurance contracts for account of policyholders	54.189	182.672	170.671	408.686	816.219
Total	**174.162**	**676.703**	**785.404**	**3.026.033**	**4.662.301**

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	39.941	190.171	453.784	865.503	1.549.399
Cash outflows	-26.208	-363.870	-491.253	-758.038	-1.639.369

2016	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2016
Cash inflows	41.117	145.706	451.410	1.027.099	1.665.331
Cash outflows	-28.860	-335.999	-483.339	-851.208	-1.699.405

4.4.11. Underwriting risk

General information

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

Sources of underwriting risk include policyholder behavior (such as lapses or surrender of policies) and policy claims (such as mortality and morbidity). In general, Optas Pensioenen is at risk if policy lapses increase as some cases Optas Pensioenen is unable to fully recover up front expenses in selling a product despite the claw back mechanism for commissions or surrender charges and fees. For mortality and morbidity risk, Optas Pensioenen sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance, and sells certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. Optas Pensioenen is also at risk if expenses are higher than assumed by management.

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

Longevity

A change in actual experience with mortality or morbidity rates may not lead to a change in the assumptions underlying the measurement of the insurance liabilities as management may recognize that the change is temporary. In addition to the mortality risk explained above, Optas Pensioenen also bears a significant longevity risk on its pension and annuity activities; people are living longer thanks to better medical care and improved living conditions.

Increased life expectation above the assumed life expectation of Optas Pensioenen at the time of underwriting negatively impacts its results. Longevity risk can be mitigated for example, by revising premiums or through reinsurance transactions. If possible, premiums are revised on renewal.

<u>Notes to the table</u>

Sensitivity analysis of net income and shareholders' equity to various underwriting risks is shown in the table that follows.

	2017		2016	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
10% increase in mortality rates	56.366	81.106	54.170	81.642
10% decrease in mortality rates	-90.183	-90.183	-90.918	-90.918

The sensitivities represent an increase or decrease of mortality and morbidity rates over best estimate. Increases in mortality rates lead to an increase in the level of benefits and claims. The impact on net income and shareholders' equity of sales transactions of investments required to meet the higher cash outflow is reflected in the sensitivities. A change in actual experience with mortality or morbidity rates may not lead to a change in the assumptions underlying the measurement of the insurance liabilities as management may recognize that the change is temporary. Life insurers are also exposed to longevity risk. Increased life expectation above Optas Pensioenen's assumed life expectation at the time of underwriting negatively impacts its results.

In 2017 and 2016 part of the LAT deficit is financed through net income, the net income effect for a decrease in mortality rates is in line with 2016. Increased life expectation above Optas Pensioenen's assumed life expectation at the time of underwriting negatively impacts its results.

Longevity

Optas Pensioenen hedges the risk of future longevity increases in the Netherlands related to a part of its insurance liabilities. Over the past years Optas Pensioenen has done several transactions to hedge this risk via both longevity index derivatives and reinsurance contracts.

4.4.12. Modelling risk

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

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

The internal control framework and model governance adopted by Optas Pensioenen are aimed at reducing modelling risk. Also backtesting and experience analysis are performed to mitigate modelling risk.

4.4.13. Other risks

Catastrophes

The operating results and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires and explosions. Generally, Optas Pensioenen seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, even with reinsurance such events could lead to considerable financial loss. Furthermore, natural disasters, terrorism and fires could disrupt Aegon Nederland's operations and could result in significant loss of property, substantial personnel losses and the destruction of company and customer information.

Legislation and regulation

Optas Pensioenen's insurance activities are subject to comprehensive regulation and supervision. Changes in current legislation and regulation of insurance products may affect Optas Pensioenen's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Optas Pensioenen'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

Optas Pensioenen is involved in litigation as part of the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are being sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Moreover, certain groups encourage others to bring lawsuits in respect of certain products. Optas Pensioenen 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 Optas Pensioenen 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 25.3 “Litigations and proceedings”.

5. Cash and cash equivalents

	2017	2016
Cash on hand and balances with banks	86.487	5.946
Short term bank deposits	509.937	652.000
Money market investments	1.037.019	508.419
Total	**1.633.443**	**1.166.365**

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

6. Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and investments in investment funds accounted for according to the equity method. For a summary of all financial assets and financial liabilities at fair value through profit or loss are investments in money market funds, see note 4.4.8 ‘equity market risk and other investment risk’ and see note 7 for ‘Investments for account of policyholders’ and note 8 for ‘Derivatives’.

	Note	2017	2016
Available-for-sale financial assets (AFS)	6.1	1.457.200	1.723.334
Loans (amortized cost)	6.1	1.276.328	1.443.313
Total investments for general account		**2.733.528**	**3.166.648**

Optas Pensioenen has not provided financial or other support to unconsolidated structured entities without having a contractual obligation to do so. Optas Pensioenen does not have intentions to provide financial or other support to unconsolidated structured entities in which Optas Pensioenen has an interest or previously had an interest.

6.1. Financial assets, excluding derivatives

2017	AFS	Loans	Total	Fair value
Debt securities	1.457.200	-	1.457.200	1.457.200
Mortgage loans	-	1.033.556	1.033.556	1.082.321
Private loans	-	242.726	242.726	248.669
Other	-	46	46	46
At December 31	**1.457.200**	**1.276.328**	**2.733.528**	**2.788.235**

2016	AFS	Loans	Total	Fair value
Debt securities	1.723.334	-	1.723.334	1.723.334
Mortgage loans	-	1.178.695	1.178.695	1.230.965
Private loans	-	264.576	264.576	271.672
Other	-	42	42	42
At December 31	**1.723.334**	**1.443.313**	**3.166.648**	**3.226.014**

	2017	2016
Current	311.629	323.402
Non-current	2.421.899	2.843.245
Total financial assets, excluding derivatives	**2.733.528**	**3.166.648**

Reference is made to note 24 ‘Fair value of assets and liabilities’ for information on fair value measurement.

6.2. Loans

<u>Loan allowance account</u>
The loan allowance account relates to mortgage loans. Movements on the loan allowance account during the year were as follows:

	2017	2016
At January 1	1.574	2.577
Reversal to income statement	-267	-755
Amounts written off	-112	-249
At December 31	**1.194**	**1.574**

7. Investments for account of policyholders

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

The fees for managing these investments are included in note 17 ‘Fee and commission income’. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 24.2 ‘Summary of financial assets and financial liabilities at fair value through profit or loss’

	2017	2016
Shares	360.615	364.026
Debt securities	368.512	373.185
Cash and cash equivalents	10.492	13.663
	739.619	**750.873**

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

8. Derivatives

	Derivative asset		Derivative liability	
	2017	2016	2017	2016
Derivatives not designated in a hedge	72.786	129.070	145.397	142.639
Bifurcated embedded derivatives	-	-	67.747	96.564
Total	**72.786**	**129.070**	**213.144**	**239.202**

	2017	2016
Current	1.082	-855
Non-current	-141.439	-109.277
Total net derivatives	**-140.357**	**-110.133**

Optas Pensioenen 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 Optas Pensioenen 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.

Embedded derivatives that are not closely related and separable to the host contracts have been bifurcated and are recorded at fair value in the statement of financial position, along with derivatives not used as hedges. These bifurcated embedded derivatives are embedded in unit-linked insurance contracts in the form of guarantees for minimum benefits.

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, swaptions, caps/floors and forward rate agreements/futures. Currency contracts are used to manage Optas Pensioenen's positions in net foreign currency investments. The main types of derivatives used for this are cross-currency swaps and currency forward contracts. For more information on the guarantees refer to note 23 'Guarantees'.

Derivatives designated as fair value hedges

Optas Pensioenen's fair value hedges consisted of interest rate swaps that were used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. In 2016 Aegon Levensverzekering changed its risk management policy and decided to take on more interest rate risk, in order to economically offset the interest rate risk on the insurance liabilities. This has resulted in a de-designation of all fair value hedge accounting applied to these mortgage portfolios as of that date. The cumulative base adjustment at the de-designation was EUR 44.1 million. This amount is amortized over the weighted average duration (7 years) of the mortgage portfolio to which hedge accounting was applied at the date of de-designation.

9. Borrowings and group loans

	2017	2016
Loan Aegon Nederland N.V.	850.000	850.000
Loan Aegon Hypotheken B.V.	300.000	300.000
Loan Aegon Derivatives N.V.	71.874	17.451
At December 31	**1.221.874**	**1.167.451**
current	71.874	127.451
non-current	1.150.000	1.040.000
Total	**1.221.874**	**1.167.451**

Optas Pensioenen provided Aegon Nederland with a loan of EUR 850 million in 2007 containing an interest rate of 6% and an indefinite maturity. Loans of group companies are considered to be non-current. There have been no repayments in 2017 and 2016. In addition, Optas Pensioenen had uncommitted financing arrangements with Aegon Hypotheken, a group company within the Aegon Nederland group.

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

Optas Pensioenen participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Optas Pensioenen uses to mitigate interest rate risk are concluded with Aegon Derivatives N.V. (‘Aegon Derivatives’). Optas Pensioenen has paid cash collateral on derivative positions via Aegon Derivatives.

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

10. Other assets and receivables

	Note	2017	2016
Receivables	10.1	9.724	172.722
Accrued income	10.2	29.059	33.358
Total		**38.783**	**206.079**

10.1. Receivables

	2017	2016
Investment debtors	-	2
Receivables from policyholders	6.402	5.474
Current account with group companies	1.088	164.002
Other	2.234	3.244
Total	**9.724**	**172.722**
Current	9.724	172.722
Total	**9.724**	**172.722**

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

10.2. Accrued income

	2017	2016
Accrued interest	28.996	32.804
Prepaid expenses	63	553
At December 31	**29.059**	**33.358**

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

11. Equity

	2017	2016
Share capital	460	460
Retained earnings	2.367.879	2.302.457
Net income / (loss)	10.885	65.422
Total	**2.379.224**	**2.368.339**

11.1.1. Share capital

	2017	2016
Authorized share capital	2.300	2.300
Not issued	1.840	1.840
	460	**460**

The authorized share capital is EUR 2.3 million, divided into 5,000 shares of EUR 460 nominal value each, of which 1,000 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2017 and 2016 Optas Pensioenen did not pay dividend to Aegon Levensverzekering.

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

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

11.2. Revaluation reserves

	2017	2016
At January 1	-	42.909
Gross revaluation	2.492	-35.891
Net (gains) / losses transferred to income statement	-2.492	-7.019
At December 31	**-**	**-**

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

	2017	2016
Debt securities	91.942	126.025
Total AFS investments	**91.942**	**126.025**
Shadow accounting	-91.942	-126.025
Total revaluation reserves	**-**	**-**

The LAT deficit in the insurance liability at year-end 2017 amounts to EUR 129 million (2016: EUR 131 million). Optas Pensioenen applies shadow accounting. This means that the revaluation reserve in equity is used to offset the deficit in the insurance liability. If the amount in the revaluation reserve is insufficient to offset the LAT deficit, then the remaining amount is charged to the income statement.

The amount in the revaluation reserve in equity available for shadow accounting amounted to EUR 92 million (2016: EUR 131 million). In 2016 and 2017 the amounts were fully used for shadow accounting.

For more information see note 2.12.5 “shadow accounting” and note 12 “insurance contracts”.

12. Insurance contracts

This account relates entirely to life insurance contracts.

Movements during the year:	2017	2016
At January 1	3.165.675	3.119.689
Gross premiums	41.089	47.675
Unwind of discount / interest credited	88.885	92.002
Insurance liabilities released	-159.971	-158.681
Changes in valuation of expected future benefits	-56.445	114.872
Portfolio transfers and acquisitions	507	-46.897
Expense loadings released	-7.614	-9.702
Movement unamortized interest rate contracts	5.053	6.718
At December 31	**3.077.180**	**3.165.675**

The life insurance contract liabilities decreased by EUR 89 million (2016: increase of 46 million). The change in valuation of expected future benefits mainly relates to a decreased value of guarantees due to increased interest rates and the adjustment of the LAT deficit. In 2017 the line item ‘other’ mainly consists of pension contracts which upon renewal were transferred from ‘insurance contracts for account of policyholders’ to ‘insurance contracts’.

The LAT deficit in the insurance liability at year-end 2017 amounts to EUR 129 million (2016: EUR 131 million). Aegon Nederland applies shadow accounting. This means that the revaluation reserve in equity is used to off-set the deficit in the insurance liability. If the amount in the revaluation reserve is not sufficient to offset the LAT deficit, then the remaining amount is charged to the income statement.

Due to the deficiency in the liability adequacy test in 2017, the insurance liabilities as per year-end 2017 were de facto measured at accounting principles used in the liability adequacy test. For more information on the accounting principles used in the liability adequacy test refer to 2.12.5 “shadow accounting” and 3.3 “valuation of assets and liabilities arising from life insurance contracts”.

Due to the deficiency in the liability adequacy test in 2017, the insurance liabilities as per the end of 2017 are de facto measured at accounting principles used in the liability adequacy test.

Movements during the year in deferred interest rebates

	2017	2016
At January 1	14.552	7.834
Rebates or future interest compensation granted	6.621	7.773
Amortization through income statement	-1.568	-1.055
At December 31	**19.605**	**14.552**

The deferred interest contracts form part of the insurance liabilities of Optas Pensioenen. The correction to the premium payable on deferred interest contacts (‘contracts granted and received during the year’) was a surplus in 2017 and 2016. As a result of the low interest rate environment, policyholders paid a surplus on the premium where previously a premium discount was given. See note 26 ‘Guarantees’ for more information.

13. Insurance contracts for account of policyholders

	2017	2016
At January 1	755.544	714.152
Gross premiums	13.169	39.499
Unwind of discount / interest credited	23.773	45.673
Insurance liabilities released	-44.587	-42.059
Portfolio transfers and acquisitions	-507	40
Expense loadings released	-968	-1.761
At December 31	**746.423**	**755.544**

14. Other liabilities and accruals

	Note	2017	2016
Other liabilities	14.1	23.259	57.605
Accruals	14.2	803	123
Total		**24.062**	**57.727**

14.1. Other liabilities

	2017	2016
Payables due to policyholders	7.668	8.217
Investment creditors	11.587	44.710
Social security and taxes payable	3.021	3.015
Other creditors	984	1.663
Total	**23.259**	**57.605**
Current	23.259	56.630
Non-current	-	975
	23.259	**57.605**

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

14.2. 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.

15. Premium income and premiums to reinsurers

Recurring premiums	2017			2016		
	Gross	Reinsurance	General Account	Gross	Reinsurance	General Account
Without profit sharing	3.526	-	3.526	3.881	-	3.881
With profit sharing	9.408	-	9.408	42.377	16	42.361
Collective	**12.934**	**-**	**12.934**	**46.258**	**16**	**46.242**
Pensions	**12.934**	**-**	**12.934**	**46.258**	**16**	**46.242**

Single premiums	2017			2016		
	Gross	Reinsurance	General Account	Gross	Reinsurance	General Account
With profit sharing	47.945	-	47.945	48.689	-	48.689
Pensions	**47.945**	**-**	**47.945**	**48.689**	**-**	**48.689**
Total single premiums	**47.945**	**-**	**47.945**	**48.689**	**-**	**48.689**

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

16. Investment income

	2017	2016
Investment income related to general account	116.182	119.928
Investment income for account of policyholders	16.741	-
	132.923	**119.928**

Investment income from:

	2017	2016
Interest income out of:		
- Debt securities	34.448	29.301
- Loans	25.829	30.860
- Other investments	65.326	59.766
Dividend income from shares	7.319	-
Total	**132.923**	**119.928**
Interest income accrued on impaired financial assets	668	1.296
Interest income on financial assets that are carried at fair value through profit or loss	104.818	119.511

Investment income from financial assets for general account:

	2017	2016
Available-for-sale	25.027	29.301
Loans	25.829	30.860
Derivatives	11.364	417
Other	53.962	59.349
Total	**116.182**	**119.928**

17. Fee and commission income

	2017	2016
Fee income from asset management	2.998	3.099
Total	**2.998**	**3.099**

18. Results from financial transactions

	2017	2016
Net fair value change of general account financial investments FVTPL, other than derivatives	-	81
Realized gains / (losses) on financial investments	2.491	7.017
Net fair value change of derivatives	-46.843	85.421
Net fair value change on financial assets at fair value through profit or loss for account of policyholder	6.419	44.634
Net foreign currency gains / (losses)	200	-47
Total	**-37.733**	**137.106**

Realized gains and losses on financial investments

	2017	2016
Shares (AFS)	-	89
Debt securities and money market investments (AFS)	2.492	6.929
Loans	-1	-2
Total	**2.491**	**7.017**

Net fair value change of derivatives

	2017	2016
Net fair value change on economic hedges where no hedge accounting is applied	-69.172	99.273
Net fair value change on bifurcated embedded derivatives	28.816	-11.636
Ineffective portion of hedge transactions to which hedge accounting is applied	-6.487	-2.216
Total	**-46.843**	**85.421**

The net fair value change on embedded derivatives includes the fair value movements of bifurcated embedded derivatives (minimum guarantees on unit-linked policies). The net fair value change on free standing derivatives includes fair value movements of derivatives to hedge certain risks in these guarantees and the guarantees included in traditional products.

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

	2017	2016
Shares	17.818	28.568
Debt securities and money market investments	-11.399	16.066
Total	**6.419**	**44.634**

19. Policyholders claims and benefits

	2017	2016
Claims and benefits paid to policyholders	196.490	190.919
Change in valuation of liabilities for insurance and investment contracts	-64.477	83.907
Total	**132.014**	**274.827**

Policyholders claims and benefits, includes claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. The changes in valuation of liabilities for insurance and investment contracts is the result of fair value changes of the guarantee provision and insurance contracts for account of policyholders as a result of decrease in interest rates.

For more information refer to note 2.12.5 ‘shadow accounting’, note 11.2 ‘revaluation reserve’ and note 13 ‘Insurance contracts’.

20. Commissions and expenses

	2017	2016
Employee expenses	-83	-
Administration expenses	11.206	11.786
Total	**11.123**	**11.787**

Administration expenses

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. This allocation is examined each year. However, Optas Pensioenen is charged by a fixed amount, mainly relating to staff expenses. In not adjusting this amount for inflation, the synergies of the acquisition by the Aegon Group are passed on to Optas Pensioenen. The administration expenses do not include depreciation expenses.

Employees

Optas Pensioenen does not have employees, but makes use of the employees that are on the payroll of Aegon Nederland. The salaries, social security contributions and pension contributions for staff working for Optas Pensioenen are recharged to Optas Pensioenen by Aegon Nederland. The assets and liabilities arising from employee benefits for staff working for Optas Pensioenen are recognized in the financial statements of Aegon Nederland. Refer to the financial statements of Aegon Nederland for more information on the pension plan and the defined benefit liabilities. The pension cost charged (post-employment benefit costs) to Optas Pensioenen are a fixed percentage of the salaries charged to the entity.

Remuneration Board of Directors

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

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

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. With respect to the total remuneration of the Board of Directors of Aegon Nederland in 2017 6% (2016: 6%) was allocated to the income statement of Optas Pensioenen.

Mortgage loans Board of Directors

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

Remuneration Supervisory Board

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

Mortgage loans Supervisory Board

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

Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Optas Pensioenen's independent public auditor during 2017 and audited these financial statements. The fees for services rendered to Optas Pensioenen need not be disclosed in this Annual Report, based on article 3:382a.3 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.

21. Impairment charges

The impairment charges of EUR -0.3 million (2016: EUR -0.8 million) relate to the Loans portfolio. The release of the impairments is driven by improved underlying value of the mortgages.

22. Interest charges and related fees

	2017	2016
Short-term liabilities and deposits	5.386	2.696
Total	**5.386**	**2.696**
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	5.386	2.696

The increase of interest charges is due to negative yield on cash and cash equivalents in 2017.

23. Guarantees

For financial reporting purposes Optas Pensioenen distinguishes between the following types of minimum guarantees in her insurance contracts:

- Financial guarantees. These guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to note 23.1 'Financial guarantees');
- Minimum investment return guarantees: these guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (refer to note 0 'Life contingent guarantees').

23.1. Financial guarantees

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

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

	2017	2016
At January 1	96.564	84.927
Changes in valuation of expected future benefits	-28.816	11.636
At December 31	**67.747**	**96.564**

Balances are included in the derivatives liabilities on the face of the statement of financial position; refer to note 8 ‘Derivatives’. The net amount at risk represents the difference between the amount payable under the guarantees and the account value at balance sheet date. Account value reflects the actual fund value for the policyholders.

23.2. Life contingent guarantees

The traditional life and pension products offered by Optas Pensioenen include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of traditional accumulation products written. Older generations contain a 4% guarantee; in 1999 the guarantee decreased to 3%.

The traditional group pension contracts offered by Optas Pensioenen include large group insurance contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the maximum of 0% and the realized return on an asset portfolio specified in the policy conditions adjusted for technical interest rates ranging from 3% to 4%. If the adjusted return is negative, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses within the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period.

These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts, net of the present value of the expected future premiums that are received to cover these guarantees.

	2017	2016
At January 1	642.563	582.571
Changes in valuation of expected future benefits	-54.934	59.993
At December 31	**587.629**	**642.563**

The net amount at risk represents the sum of the differences between the guaranteed and actual amount that is credited to the policyholders. For Individual policies only positive differences are included, for Group pensions contracts carry forward of negative differences are recognized.

23.3. Fair value measurement of guarantees in insurance contracts

The fair values of guarantees mentioned above are calculated as the present value of future expected guarantee payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Optas Pensioenen utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees.

Refer to note 24.1.3 ‘Embedded derivatives in insurance contracts including guarantees’ for information on the determination of the fair value of these guarantees.

24. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Optas Pensioenen 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, Optas Pensioenen 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 Optas Pensioenen 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 Optas Pensioenen 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.

Optas Pensioenen 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 Optas Pensioenen 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.

24.1. Fair value hierarchy

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

2017	Level I	Level II	Level III	Total 2017
Assets carried at fair value				
AFS investments				
- Debt securities	1.210.230	246.823	147	1.457.200
FVTPL investments				
- Investments for account of policyholders	-	739.619	-	739.619
- Derivatives	808	71.978	-	72.786
Total assets	**1.211.038**	**1.058.421**	**147**	**2.269.605**
Liabilities carried at fair value				
- Derivatives	34	145.363	67.747	213.144
Total liabilities	**34**	**145.363**	**67.747**	**213.144**

2016	Level I	Level II	Level III	Total 2016
Assets carried at fair value				
AFS investments				
- Debt securities	1.397.415	325.919	-	1.723.334
FVTPL investments				
- Investments for account of policyholders	-	750.873	-	750.873
- Derivatives	62	129.008	-	129.070
Total assets	**1.397.476**	**1.205.801**	**-**	**2.603.277**
Liabilities carried at fair value				
- Derivatives	719	141.920	96.564	239.202
Total liabilities	**719**	**141.920**	**96.564**	**239.202**

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

Significant transfers between Levels I/II/III

During 2016 the Latvia government bonds (EUR 36.2 million) were transferred from level II to level I as Latvia became an OECD member.

There were no other significant transfers.

Significant unobservable assumptions

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

Movements in Level III financial instruments measured at fair value

2017	As at 1-1-2017	Result income statement	Result OCI	Sales	Transfers between I/II and III	As at 31-12-2017	Result year-end
Assets carried at fair value							
AFS investments							
- Debt securities	-	1	10	-19	155	147	1
Total assets	**-**	**1**	**10**	**-19**	**155**	**147**	**1**
Liabilities carried at fair value							
- Derivatives	96.564	-28.816	-	-	-	67.747	-28.816
Total liabilities	**96.564**	**-28.816**	**-**	**-**	**-**	**67.747**	**-28.816**

2016	As at 1-1-2016	Result income statement	Result OCI	Sales	Transfers between I/II and III	As at 31-12-2016	Result year-end
Assets carried at fair value							
AFS investments							
- Debt securities	40.377	-	-	-	-40.377	-	-
Total assets	**40.377**	**-**	**-**	**-**	**-40.377**	**-**	**-**
Liabilities carried at fair value							
- Derivatives	84.927	11.636	-	-	-	96.564	11.636
Total liabilities	**84.927**	**11.636**	**-**	**-**	**-**	**96.564**	**11.636**

2017	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Debt securities - ABS	147	Broker quote	n.a.	n.a.	n.a.
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	67.747	Discounted cash flow	Credit spread	0,2%	0,2%
Total liabilities at fair value	**67.747**				

2016	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Debt securities - ABS	-	Broker quote	n.a.	n.a.	n.a.
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	96.564	Discounted cash flow	Credit spread	0,4%	0,4%
Total liabilities at fair value	**96.564**				

* Not applicable (n.a.) has been included when no significant unobservable assumption has been identified and used or if the unobservable assumption were not available.

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

2017	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	67.747	Credit spread	a	-2.203	2.303

2016	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives in insurance contracts	96.564	Credit spread	a	-3.150	3.296

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

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

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

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

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

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

2017	Carrying amount December 31	Total estimated fair value, December 31	Level of fair value hierarchy			Valuation technique	Unobservable inputs
			Level I	Level II	Level III		
Assets							
Mortgage loans	1.033.556	1.082.321	-	-	1.082.321	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	242.726	248.669	-	-	248.669	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	1.178.695	1.230.965	-	-	1.230.965	Discounted cash flow	Discountfactor (a.o. based on consumer mortgage rates, risk free interest rate), prepayments
Private loans	264.576	271.672	-	-	271.672	Discounted cash flow	-

24.1.1. Debt securities

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

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

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

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

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

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

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

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

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

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

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

24.1.2. Mortgage loans, policy loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Optas Pensioenen, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield and maturity characteristics. For fixed interest mortgage loans, the market rate is adjusted for expenses, prepayment rates, lapse assumptions (unobservable inputs), liquidity and credit risk (market observable inputs). An increase in expense spread, prepayment rates and/or prepayment assumptions, would decrease the fair value of the mortgage loan portfolio.

The fair value of floating interest rate mortgage loans, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management's estimate if not market observable.

24.1.3. Money market and other short-term investment and deposits with financial institutions

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

24.1.4. Derivatives

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

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

Optas Pensioenen normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[3] master netting agreements to offset credit risk exposure. In the event no collateral is held by Optas Pensioenen 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.

Optas Pensioenen valuation of its euro-denominated derivatives positions in the Netherlands is based on the Overnight Index Swap curve.

24.1.5. Embedded derivatives in insurance contracts including guarantees

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

Since the price of these guarantees is not quoted in any financial market, the fair values of these guarantees are based on discounted cash flows calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic models under a variety of market return scenarios. A variety of factors are considered including own credit spread, expected market rates of return, equity and interest rate volatility, correlations of market returns, discount rates and actuarial assumptions. The most significant unobservable factor is own credit spread. The own credit spread used in the valuations of embedded derivatives in insurance contracts is 0.2% for the year-ended (2016: 0.4%).

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

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

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy. See also note 23 'Guarantees'.

[3] International Swaps and Derivatives Associations

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

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

	2017		2016	
	Trading	Designated	Trading	Designated
Investments for general account	-	34.383	-	40.871
Investments for account of policyholders	-	739.619	-	750.873
Derivatives with positive values	72.786	-	129.070	-
Total financial assets at FVTPL	**72.786**	**774.002**	**129.070**	**791.744**

	2017		2016	
	Trading	Designated	Trading	Designated
Liabilities for guarantees	-	587.629	-	642.563
Derivatives with negative values	145.397	67.747	142.639	96.564
Total financial liabilities at FVTPL	**145.397**	**655.377**	**142.639**	**739.127**

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	-69.172	28.748	99.449	30.687

<u>Investments for account of policyholders</u>

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

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

Investment contracts for account of policyholders

With the exception of the financial liabilities with discretionary participating features that are not subject to the classification and measurement requirements for financial instruments, all investment contracts for account of policyholders that are carried at fair value or at the fair value of the linked assets are included in the table above.

Derivatives

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

25. Commitment and contingencies

25.1. Investments contracted

In the normal course of business, Optas Pensioenen 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 sales	2017	2016
Mortgage loans	3.425	5.284

25.2. Other commitments and contingencies

Guarantees given	2017	2016
Standby letters of credit	473	394

Optas Pensioenen is part of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V. and consequently pays its share of the reinsurance premium and other expenses.

The letters of credit shown above relate chiefly to the guarantee issued by Optas Pensioenen for its share in the excess risk of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V. In addition to the above guarantees, guarantees have been issued for compliance with contractual obligations such as investment mandates of investment funds. The future transfer price will be at the fair value at the investment date.

Minimum guarantees

A number of insurance and investment products have minimum guarantees for which obligations have been entered into and which are, therefore, not included in the above table. These guarantees are disclosed in note 23 ‘Guarantees’.

25.3. Litigations and proceedings

Optas Pensioenen 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.

Optas Pensioenen 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 Optas Pensioenen will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

26. Transfers of financial assets

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

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

When transferring non-cash financial assets to another party under security lending and repurchase activities, the counterparty has the right to sell or repledge the full amount. The table below includes financial assets that have been transferred to another party under security lending with respect to investments for account of policyholders. Optas Pensioenen is not involved in repurchase agreements nor does it have continuing involvement for derecognized financial assets that have been transferred in their entirety.

Reverse repurchase agreements	2017	2016
Cash paid for reverse repurchase agreements	1.037.019	508.419
Fair value of non-cash collateral received	-	-508.419
	1.037.019	
Net exposure	**-**	**-**
Non-cash collateral that can be sold or repledged in the absence of default	1.037.019	508.419

Securities lending	2017	2016
Carrying amount of transferred financial assets	168.585	58.805
Fair value of cash collateral received	-22.101	-8.059
Fair value of non-cash collateral received	-150.293	-52.540
Net exposure	**-3.808**	**-1.794**
Non-cash collateral that can be sold or repledged in the absence of default	**150.293**	**52.540**

26.1. Transferred financial assets that are derecognized in their entirety, but where Optas Pensioenen has continuing involvement

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

27. Offsetting, enforceable master netting arrangements and similar arrangements

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

Financial assets and liabilities are offset in the statement of financial position when Optas Pensioenen 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.

Optas Pensioenen mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities of Optas Pensioenen to facilitate Optas Pensioenen's right to offset credit risk exposure. Optas Pensioenen can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Optas Pensioenen or its counterparty. Transactions requiring Optas Pensioenen or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary. Refer to the credit risk section in note 4.4.4 'Credit risk' for details on collateral received for derivative transactions.

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

2017	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	72.786	-	**72.786**	72.786	-	**-**
At December 31	**72.786**	**-**	**72.786**	**72.786**	**-**	**-**

2016	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the statement of financial position	**Net amounts of financial assets presented in the statement of financial position**	Related amounts not set off in the statements of financial position		**Net amount**
				Financial instruments	Cash collateral received (excluding surplus collateral)	
Derivatives	129.070	-	**129.070**	129.070	-	**-**
At December 31	**129.070**	**-**	**129.070**	**129.070**	**-**	**-**

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

2017				Related amounts not set off in the statements of financial position		**Net amount**
	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**	Financial instruments	Cash collateral pledged (excluding surplus collateral)	
Derivatives	145.397	-	**145.397**	72.786	71.978	**633**
At December 31	**145.397**	**-**	**145.397**	**72.786**	**71.978**	**633**

2016				Related amounts not set off in the statements of financial position		**Net amount**
	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**	Financial instruments	Cash collateral pledged (excluding surplus collateral)	
Derivatives	142.639	-	**142.639**	129.070	13.569	**-**
At December 31	**142.639**	**-**	**142.639**	**129.070**	**13.569**	**-**

28. Related party transactions

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

Optas Pensioenen granted a loan of EUR 850 million to Aegon Nederland for an indefinite period at an interest rate of 6%. The accrued interest on the intercompany loan at December 31, 2017 was nil (2016: nil).

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.

All financial transactions pass through the current account with Aegon Nederland. At year-end, Optas Pensioenen had a current account receivable from Aegon Nederland of EUR 1 million (2016: EUR 164 million) (see note 10.1 'Receivables'). EUR -/- 0.2 million (2016: EUR 8,9 million) of interest income on this intercompany current account was recognized through the income statement.

Optas Pensioenen participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Optas Pensioenen uses to mitigate interest rate risk are concluded with Aegon Derivatives. Optas Pensioenen has paid cash collateral on derivative positions via Aegon Derivatives for an amount of EUR 72 million (2016: EUR 17 million). See also note 9 'Borrowings and group loans'. Net fair value change on these derivative transactions amount to a charge of EUR -/- 69 million (2016: income of EUR 88 million). The derivatives had a credit position of EUR 73 million (2016: credit position of EUR 14 million).

Aegon Nederland provides Optas Pensioenen with administrative support and facilities at cost. All transactions with group companies pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. Total recharged expenses in 2017 were EUR 6.1 million (2016: EUR 6.1 million).

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and securities custody through Aegon Custody B.V. Costs are recharged on normal commercial terms. The recharge was EUR 2.1 million (2016: EUR 2,6 million) and is disclosed as management fees. Optas Pensioenen also received a management fee of EUR 3.0 million (2016: EUR 3.1 million); the investment portfolio amounted to EUR 2,440 million (2016: EUR 2,739 million).

The mortgages held by Optas Pensioenen are managed and administered by Aegon Levensverzekering. The recharge for these services was EUR 2 million (2016: EUR 2.2 million). The mortgages amounted to EUR 1,034 million (2016: EUR 1,178 million).

No mortgage receivables were purchased in 2017 and 2016 and Optas Pensioenen did not pay dividend to Aegon Nederland in 2017 and 2016.

29. Post reporting date events

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

30. 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 10.9 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The Hague, April 30, 2018

The Supervisory Board,

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

The Hague, April 30, 2018

The Board of Directors,

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

Other information

Provisions in the articles of association regarding profit appropriation

Appropriation of profit will be determined in accordance with Article 23 of the articles of association of Optas Pensioenen N.V:

1. The Annual General Meeting is authorized to appropriate the profit as determined by adoption of the financial statements and to declare distributions, with due regard for the statutory restrictions and the provisions of Articles 23.2 and 23.3.
2. The profit must be used in accordance with the Company's objective, except for a dividend distribution equal to a percentage to be set by the Annual General Meeting of no more than five percent (5%) or the percentage stated in Article 3 of the Corporate income tax Implementing Decree 1971 or any statutory provision taking it place on the nominal paid-up capital, which may be made available as dividend to the shareholders. The Annual General Meeting may resolve to add all or part of the percentage referred in the previous sentence to the dividend reserve and may resolve to cancel all or part of the dividend reserve and distribute it to shareholders.
3. If the Company's object is achieved, the remaining reserves shall be used in favor of another pension fund with a similar object or an institution as meant by Section 47(1)(b) of the Corporate income taxes Act 1964.
4. Distributions on shares may only be made up to the amount of the distributable capital and reserves and, in the case of an interim distribution, if this requirement is met as evidenced by an interim statement of net assets pursuant to Section 2:105(4) Dutch Civil Code. The company shall file the statement of net assets at the offices of the trade register within eight days of the day on which the resolution for distribution is announced.
5. The authority of the Annual General Meeting to declare a distribution shall apply to distributions from profits not taken to reserves and to distributions charged to any reserve, and to distributions on the adoption of the financial statements and to interim distributions.
6. A resolution to make a distribution shall not take effect until approved by the Board. The Board shall refuse to give approval if it knows or reasonably ought to know that following the distribution the company would be unable to continue paying its liabilities when due.

Independent auditor's report

Independent auditor's report

To: The General Meeting and Supervisory Board of Optas Pensioenen N.V.

Report on the financial statements 2017

Our opinion

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

What we have audited

We have audited the accompanying financial statements 2017 of Optas Pensioenen N.V., The Hague ('the Company).

The financial statements comprise:

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

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

The basis for our opinion

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

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

Independence

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

Our audit approach

Overview and context

Optas Pensioenen N.V. is a medium sized insurance company specialized in employee insurance products with a core business of the insurance of group pensions.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Notes 3 and 24 of the financial statements the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty.

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

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

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

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

The outline of our audit approach was as follows:

Materiality

- Overall materiality: €54 million.

Audit scope

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

Key audit matters

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

Materiality

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

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

Overall materiality	€54 million (2016: €54 million).
Basis for determining materiality	At the start of the planning of our audit we performed a stakeholders' analysis that identified suitable benchmarks and thresholds for determining overall materiality for the statutory financial statements. We utilised quantitative and qualitative measures that included the perspective of the common information needs of the parent company, policyholders, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. Using our professional judgment, our evaluation of overall materiality has been based on applying 4% of equity (2016: 3%). The increase of the benchmark from 3% to 4% is due to the increase of the solvency ratio during the year (refer to Note 4.2 to the financial statements). This resulted in an overall materiality of €95 million (2016: €71 million). The allocated materiality to the Company from its parent company that was used for group reporting purposes amounted to €54 million (2016: €54 million).

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

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

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €2.7 million (2016: €3.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our audit

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

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

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

Key audit matters

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

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

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

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

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

Key audit matter	*How our audit addressed the matter*
Valuation of insurance contracts and insurance contracts for account of policyholders including the design and application of complex valuation models and the economic and actuarial assumptions that support the calculation *Refer to Note 2.12 'Summary of significant accounting policies-insurance contracts', Note 12 'Insurance contracts' and Note 13 'Insurance contracts for account of policyholders'.* The company has significant insurance contract liabilities stated at €3.1 billion and insurance contracts for account of policyholders stated at €0.7 billion at 31 December 2017 representing 94% of the Company's total liabilities, which mostly relates to the Life and Pension products. This is an area that involves significant judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement of long term insurance liabilities and relevant guarantees provided to policyholders, and therefore we considered it a key audit matter for our audit. • Consistent with the insurance industry, the Company uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data or the design or application of the models. • Economic assumptions such as investment returns and interest rates and actuarial assumptions such as mortality, morbidity and customer behaviour are key inputs used to estimate these long-term liabilities. Significant judgement is applied in setting these assumptions. • During 2017, the Company continued its multi-year review of their actuarial models with continued	We used our own actuarial specialists to assist us in performing our audit procedures. In particular, our audit focused on the actuarial models considered more complex and/or requiring significant judgement in the setting of assumptions such as the relevant guarantees provided to policyholders. We evaluated the design and tested the operating effectiveness of internal controls over the actuarial process including management's determination and approval process for setting of economic and actuarial assumptions. We assessed the Company's validation of certain models considered medium and higher risk by the Company as a result of complexity and/or magnitude. We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with the applicable accounting standards. We also assessed and tested the internal controls over the Company's actuarial analyses including estimated versus actual results and experience studies. For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied along with comparison to applicable industry experiences. Furthermore, we performed audit procedures over the models and model updates to determine the models and systems were calculating the insurance contracts liabilities accurately and completely. We tested the validity of management's liability adequacy testing which is a key test performed to check that the insurance liabilities are adequate as compared to the expected future contractual obligations. Our

Key audit matter	How our audit addressed the matter
focus on those considered medium and high risk. These model updates in combination with the Company's actuarial and economic assumptions update resulted in certain credits being recorded for the year as explained in Note 3 'Critical accounting estimates and judgment in applying accounting policies'. • Sustained low interest levels led to a deficit resulting from management's liability adequacy testing of €-129 million as of December 31, 2017. As the Company applies the principle of shadow loss recognition, this amount has been charged to Other Comprehensive Income to the extent unrealised gains were available in the revaluation reserve from investments accounted for at available for sale. The remaining part has been charged to the income statement.	work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Company's and industry experience and specific product features. In addition, we validated the calculations performed. We assessed the appropriate application of shadow loss recognition in line with the company's accounting policies. We also assessed the adequacy of the disclosures in note 12 and note 13 of the financial statements in relation to insurance contract liabilities.
Fair value of 'hard to value' financial instruments *Refer to Note 2.5 'Summary of significant accounting policies-investments' and Note 24 'Fair value of assets and liabilities".* The Company's investment portfolio, including net derivative assets, totalling €3.3 billion represents 52% of the Company's total assets. Quoted prices from liquid market sources can be obtained for a large portion of the portfolio. The areas that involved significant audit effort and judgement were the valuation of illiquid instruments. These instruments are valued based on models and assumptions that are not observable by third parties which are generally considered level III as included in Note 24 'Fair value of assets and liabilities'. Those investments have a higher potential risk to be affected by error or management bias. Therefore these areas are considered a key matter for our audit. Our focus considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortized cost on the balance sheet but for which fair value is required to be disclosed. The risk was not uniform for all investment types and industries and was considered greatest for derivatives, indirect investments in real estate, mortgage loans, asset backed securities; hedge funds, private equity funds and other alternative investments, unlisted equity and debt securities.	We assessed the design and tested the operating effectiveness of internal controls over the investments' valuation and impairment process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management's review of valuations provided by external experts or data vendors. We performed substantive audit procedures to supplement procedures over internal control testing. We assessed pricing model methodologies against industry practice and valuation guidelines. We compared assumptions used against appropriate benchmarks and pricing sources, investigated significant differences and performed our own independent valuations, using valuation statements, independent broker quotes and underlying financial data, where applicable. We evaluated the cash flow and other relevant testing performed by the Company in order to identify any impairment in relation to investments. We used our valuation specialists to assist us in performing our audit procedures. We also assessed whether the Company's disclosures in

Key audit matter	*How our audit addressed the matter*
	the financial statements in relation to the valuation of investments are in accordance with EU-IFRS.
Disclosures on the capital position based on Solvency II regulations *Refer to Note 4.2. 'Capital management and Solvency'* Optas Pensioenen N.V., as an insurance company, determines the required capital to cover the risk exposure based on the Solvency II requirements. For some risks of the activities in the Netherlands, a partial internal model, approved by DNB, is used to determine the capital requirements. For the other risks, the standard formula is applied. When determining the available funds (€1.410 million) and the required capital positions (€196 million) some important estimates and valuation models are applied, in which input is used, that is not observable in the market. The main elements are: • The cash flows used to determine the economic value of the technical provisions; • Expected premium income for the next year; • Projected fiscal results and an analysis of future realisations; • The loss absorbing capacity of deferred taxes on a shock in the solvency capital. As disclosed in note 4.2. 'Capital management and Solvency', Solvency capital ratios are not final until filed with the regulator and subject to supervisory review. Relating to the management estimates and complex valuation models, there is a higher risk of a misstatement. As the Solvency-ratio is an important metric and the Solvency II information is being used in the capital- and dividend policy of the company, we believe this information is important. Therefore we consider this to be a key audit matter.	We designed our audit procedures with respect to the Solvency II required and available capital taking into account the NBA practice guidance in Audit Alert 40. We verified that the adjustments to come from the IFRS balance sheet to the economic balance sheet, the basis for the calculation of the available capital, are accurate and complete and in accordance with Solvency II regulations. We have tested the estimates (parameters and assumptions with respect to mortality, claims, lapse and future expenses) used to determine the cash flows to the observed experience. Where the assumptions take into account actions of management, we have challenged management on the feasibility and associated impact. We determined that information to support the estimates as used by management is available and we believe that estimates are reasonable. We assessed that the capital requirements for each sub risk are calculated in accordance with Solvency II regulations, or the approved internal model where applicable. In this respect we tested the internal control procedures concerning the data used, the model governance and the calculation process. We also performed independent sample tests on the data used and the calculations performed. We tested the loss absorbing capacity of deferred taxes that is taken into account. Herewith, we evaluated the projections of future (fiscal) results. These projections are based upon approved budgets and forecasts. For the life-business these reconcile to the cash flow projections that are made to calculate the technical provisions. We have performed back-testing on budgets and the previous year's forecasts. Further we have assessed that the valuation differences between the fiscal and the Solvency II valuation are taken into account in the correct year of the projection. Furthermore we focussed on the accuracy of the movements in the expected results, due to corrective measures, the correct timing of the inclusion of losses from the shock in fiscal results and that regulations with respect to offsetting of losses are applied correctly. We verified that the estimates, as used by management, are sufficiently supported by audit-evidence.

Key audit matter	How our audit addressed the matter
	Furthermore we assessed the adequacy of the disclosures.

Report on the other information included in the annual report

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Our appointment

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

No prohibited non-audit services

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

Services rendered

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

Responsibilities for the financial statements and the audit

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

The Board of Directors is responsible for:

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 30 April 2018
PricewaterhouseCoopers Accountants N.V.

Originally signed by E.L. Rondhout RA

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

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

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

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

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

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

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

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