Pillar 3 Disclosures 2017

Aegon Bank N.V.

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List of abbreviations used in this report

AAM	Aegon Asset Management
AEB	Aegon Bank NV
AFD	Aegon Financiële Diensten (Aegon Financial Services)
ALCO	Asset and Liability Committee
AT1	Additional Tier 1
BE CPR	Best Estimate Constant Prepayment Rate
BIA	Basic Indicator Approach
bln	Billion
CACF	Crédit Agricole Consumer Finance
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCyB	Countercyclical Capital Buffer
CDS	Credit Default Swap
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CM	Capital Management
COREP	Common Reporting
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CVA	Credit Valuation Adjustment
DNB	De Nederlandsche Bank NV (Dutch Central Bank)
DO	Directie Overleg (Board meeting)
DV01	Dollar Value of one basis point
EAD	Exposure at Default
EAR	Earnings at Risk
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ERM	Enterprise Risk Management
EU	European Union
EUR	Euro
FINREP	Financial Reporting
FRM	Financial Risk Management
FTE	Full Time Equivalent
FX	Foreign Exchange
GBP	Great British Pound
GL	Guidelines
G-SII	Global Systemically Important Institution
HQLA	High Quality Liquid Assets
HR	Human Resources
HY	Half Year
IAN	Internal Audit Nederland (Netherlands)
IAS	Internal Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal Rating Based
IRRBB	Interest Rate Risk in the Banking Book

IRS	Interest Rate Swap
ISDA	International Swaps and Derivatives Association
IT	Information Technology
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LtV	Loan-to-Value
MB	Management Board
MDA	Maximum Distributable Amount
mln	Million
NHG	Nationale Hypotheek Garantie (National Mortgage Guarantee)
NL	The Netherlands
NSFR	Net Stable Funding Ratio
ORM	Operational Risk Management
O-SII	Other Systemically Important Institution
PD	Probability of Default
QCT	Quality Control Team
RAS	Risk Appetite Statement
TRS	Technical Regulatory Standard
RW	Risk Weight
RWEA	Risk Weighted Assets
SB	Supervisory Board
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review & Evaluation Process
T2	Tier 2
TREA	Total Risk Exposure Amount
VaR	Value at Risk
Wft	Wet financieel toezicht (Dutch Financial Supervision Act)

1 Introduction

This report should be read in conjunction with the financial statements of Aegon Bank N.V. (AEB), as included in AEB's Annual Report 2017. Through this Pillar 3 Disclosure, AEB complies with applicable disclosure requirements, to the extent that certain disclosures are not included in the financial statements. There are no significant differences between the scope of consolidation for prudential purposes and the basis of consolidation used in the Annual Report. The information in this document has not been audited by AEB's external auditors.

1.1 Regulations

Since the introduction of the Basel II Capital Framework, codified in the Dutch Financial Supervision Act (*Wet financieel toezicht*; or *Wft*), requirements have been set to promote the transparency of financial institutions. Those requirements are set out in Pillar 3 'Disclosures and Market Discipline' of the Basel II Capital Framework. The Basel III Accord was adopted in 2010 and converted by the European Union (EU) into the Capital Requirement Regulation (575/2013) (CRR) and Capital Requirement Directive (2013/36/EU) (CRD IV)[1]. Specifically, Title II of CRD IV (Technical Criteria on Transparency and Disclosure) relates to disclosure requirements. Institutions have been required to apply the new rules since 1 January 2014, with full implementation on 1 January 2019.[2]

1.1.1 Pillar 1: Regulatory Capital (minimum capital requirement)

Pillar 1 refers to the minimum capital to be held by banks to cover credit, operational and market risk.

- Credit risk: AEB uses the Standardized Approach (SA) for credit risk. This approach prescribes a standardized credit risk weighting, depending on the exposure class and rating category, to be applied to the exposures concerned in order to determine its contribution to the Total Risk Exposure Amount (TREA)[3].
- Operational risk: In order to determine the capital requirement for operational risk, AEB uses the Basic Indicator Approach (BIA). Accordingly, the capital requirement for operational risk is defined as 15% of the average 'relevant indicator' for the last three of twelve-monthly observations at the end of AEB's financial year. The elements of the relevant indicator are based on the Finrep template F02.00 and the indicator equals net operating income excluding the elements set out in Article 316-1 (b)[4] CRR.[5]
- Market risk: AEB defines market risk as the risk of incurring losses on on-balance sheet and off-balance sheet positions arising from adverse movements in market prices. Market risk is subdivided into the following risks: position risk (for assets in the trading book), foreign currency conversion (FX) risk, and commodities risk. AEB currently holds FX positions in Great British Pounds (GBP), which means that it is exposed to FX risk. Because the net position in GBP remains below the 2% '*de*

[1] CRD IV comprises (i) Capital Requirements Directive (2013/36/EU) (CRD),which has been implemented in national law, and (ii) Capital Requirements Regulation (575/2013) (CRR), which is directly applicable to firms across the EU.

[2] In January 2015, the Bank for International Settlements published its "Revised Pillar 3 disclosure requirements", specifically focusing on disclosure requirements related to Pillar 1 of the Basel framework (credit, operational and market risk). The implementation date for these requirements is year-end 2016.

[3] The sum of the products of the credit-risk weight multiplied by the carrying value results in the risk-weighted assets (RWA) associated with the credit risk.

[4] Article 316(b): Institutions shall not use the following elements in the calculation of the relevant indicator: (i) realised profits/losses from the sale of non-trading book items, (ii) income from extraordinary or irregular items, (iii) income derived from insurance.

[5] The capital requirement multiplied by 12.5 produces the amount of RWA for operational risk.

minimis' threshold, AEB does not calculate own funds requirements for FX risk. As such, AEB is not required to hold capital for market risk under Pillar 1.

1.1.2 Pillar 2: Supervisory Review

Under Pillar 2, AEB's Management Board and process owners annually perform an integrated analysis of the bank's business model, balance sheet and associated risks under base and adverse scenarios. The risks identified, including Pillar 1 risks, are measured and aggregated, after which AEB estimates the appropriate capital requirements for each identified risk factor. The Management Board (MB) continuously monitors and, where necessary, takes action if certain risks materialize in excess of AEB's risk appetite limits.

1.1.3 Pillar 3: Disclosures and market discipline

Finally, CRR lays down requirements for the disclosure of information to the public. These requirements are set out in Pillar 3 'Disclosures and Market Discipline'. AEB meets the Pillar 3 requirements by publishing this document as a specific schedule to its financial statements. AEB has prepared its Pillar 3 report in accordance with the CRR and CRD IV, as required by the supervisory authority. In addition to the Pillar 3 requirements as described in the CRR, the following guidelines were used:

- European Banking Authority (EBA) Regulatory Technical Standards (RTS) on disclosure of encumbered and unencumbered assets under Article 443 of the CRR;
- Supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;
- Implementing Technical Standards (ITS) with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- EBA guidelines on Liquidity Capital Ratio (LCR) disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013;
- EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013; and
- ITS with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

The Pillar 3 report is published annually and should be seen as an addition to AEB's Annual Report 2017.

2 General Information

AEB is a public limited liability company organized and existing under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague, under number 30100799. Its registered office is situated at Aegonplein 50, 2591 TV The Hague. AEB is a wholly owned subsidiary of Aegon Nederland N.V., based in The Hague. AEB's ultimate parent company is Aegon N.V., also based in The Hague. Please refer to AEB's Annual Report 2017 for more information on the following topics.

2.1 Purpose and mission statement

Aegon N.V.'s mission is to 'help people achieve a lifetime of financial security'. This is also reflected in Aegon Nederland's mission, which states that 'we enable clients to make their own informed decisions for a secure financial future'. By implementing its strategy, AEB contributes to Aegon Nederland's mission.

As an Aegon Nederland subsidiary, AEB occupies a well-defined position in terms of Aegon Nederland's vision. AEB's ultimate goal is to see its customers recommend its products and services to others. AEB delivers banking solutions, products and services which, for example, provide customers with the means to:

- compile a personal financial plan;
- invest in a range of products designed to achieve wealth accumulation; and/or
- invest in future income arrangements to secure a healthy financial future.

2.2 Main activities, products, services, and geographic areas

Aegon Nederland offers a wide range of financial products and services to its clients, including pensions, insurance (life and non-life), mortgage loans, savings and investment solutions. Contributing to the Aegon Nederland mission, AEB specializes in developing, selling and maintaining payment, savings and investment products. AEB does this through two labels: (1) Aegon Bank and (2) Knab.

1. Aegon Bank is predominantly an online retail bank that develops third-pillar pension products (tax-friendly banking savings) and fourth-pillar pension products (investments and online savings) for future income, in addition to individual second-pillar pensions. These products and services are focused on long-term wealth accumulation.
2. Knab was introduced in 2012 as a disruptive online banking initiative for retail and self-employed clients. Currently it is a full-scope banking concept with payment services, investments, savings, financial planning tools, alerts and experts. Knab seeks to provide high-quality client services and to be a driver of (online) developments. By the end of 2017 Knab had grown to 165,000 clients. It is perceived to be one of the most popular brands within the Dutch retail banking landscape.

2.3 Internal organizational structure

The operations of AEB's two labels are separate, but the supporting functions (in the context of the banking license) for both labels such as Risk & Compliance, Capital Management, HR & Support, Strategic & Regulatory Affairs and Finance, Control & Regulatory Reporting are shared and carried out at AEB level. AEB employs a holistic risk governance model to optimize business support and oversight, and has implemented a "three lines of defense" risk management model.

To enjoy benefits of scale, AEB has outsourced part of its activities, such as Marketing & Communications, first-line Customer Service, Facility & IT and Online, to Aegon Nederland, which has dedicated teams work on AEB’s behalf. AEB remains accountable for the effective implementation and execution of those processes. Knab, on the other hand, either independently performs or sources the full range of its operations including IT, Client Contact Centre and Marketing & Development to support its rapid development and cement its culture.

2.4 Underlying assumptions

2.4.1 Scope and reference date

AEB’s Pillar 3 document covers its full consolidated balance sheet at 31 December 2017, including the ‘Aegon Bank’ and ‘Knab’ labels that are part of AEB’s business. All amounts in this Pillar 3 report are stated in millions of euros (EUR), unless stated otherwise.

2.4.2 Basis of consolidation

The consolidated financial statements include the financial statements of AEB and its subsidiaries. Subsidiaries (including structured entities) are entities over which AEB exercises control. AEB controls an entity when AEB is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity. Please refer to AEB’s Annual Report 2017 for more information.

2.4.3 Accounting and risk principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and Part 9 of Book 2 of the Dutch Civil Code. Please refer to AEB’s Annual Report 2017 for more information.

3 Overview of risk management

3.1 Introduction

AEB manages risks on behalf of its customers and stakeholders. Its Enterprise Risk Management (ERM) Framework provides the core structure that allows AEB to assess, control and manage all the risks to which it is exposed. The ERM Framework is therefore essential to ensuring AEB's financial strength.

The ERM Framework is a comprehensive framework. Not only does it define the principles for the way in which risk management is to be embedded in the bank's daily business activities, but it also sets out the policies and standards on how risk management should be part of AEB's strategic planning process. In addition, the framework ensures the identification, measurement and control of risks at all levels across the organization. It also provides a means to identify any new risks that could potentially arise. The framework covers risk measurement and reporting, and underlines the importance of general risk awareness among and attitudes and behavior of our employees, management, and leadership.

The ERM Framework can only be effective if there is a sound and consistent risk culture throughout the organization. AEB's management has therefore defined principles for an excellent risk culture.

A strong risk management function that has been integrated into day-to-day management of the business and strategic planning has given the bank a strategic competitive advantage. It has helped the bank protect its reputation, lower the cost of capital, and ultimately reduce costs. It has also helped the bank minimize the risk of investigations, prosecution, and fines. By effectively managing risks, the bank enhances its competitive position by building trust among all stakeholders.

In other words, the role of risk management is:

> "to be responsible, on the MB's behalf, for the supervision and oversight of the organization acting in a risk-aware manner and proactively advising the MB. In this context, AEB expects Risk Management to proactively support management by highlighting risk responsibilities and helping management design and implement appropriate controls."

3.2 Risk Governance

During the year, the organizational and governance structure was strengthened to reflect the bank's growth ambitions, and to enable a more pro-active risk management approach. The MB comprises the statutory Chief Executive Officer (CEO, Eric Rutten), the statutory Chief Financial Officer (CFO, Mike de Boer), the statutory Chief Risk Officer (CRO, Ebbe Negenman since 1 July 2017), and General Counsel (Axel van Doorn, since 1 September 2017). On 1 April 2018 the position of Chief Operational Officer (COO, held by Bianca Joustra) was added to the MB.

After the addition of the COO, Aegon Bank N.V.'s organization chart is as follows:

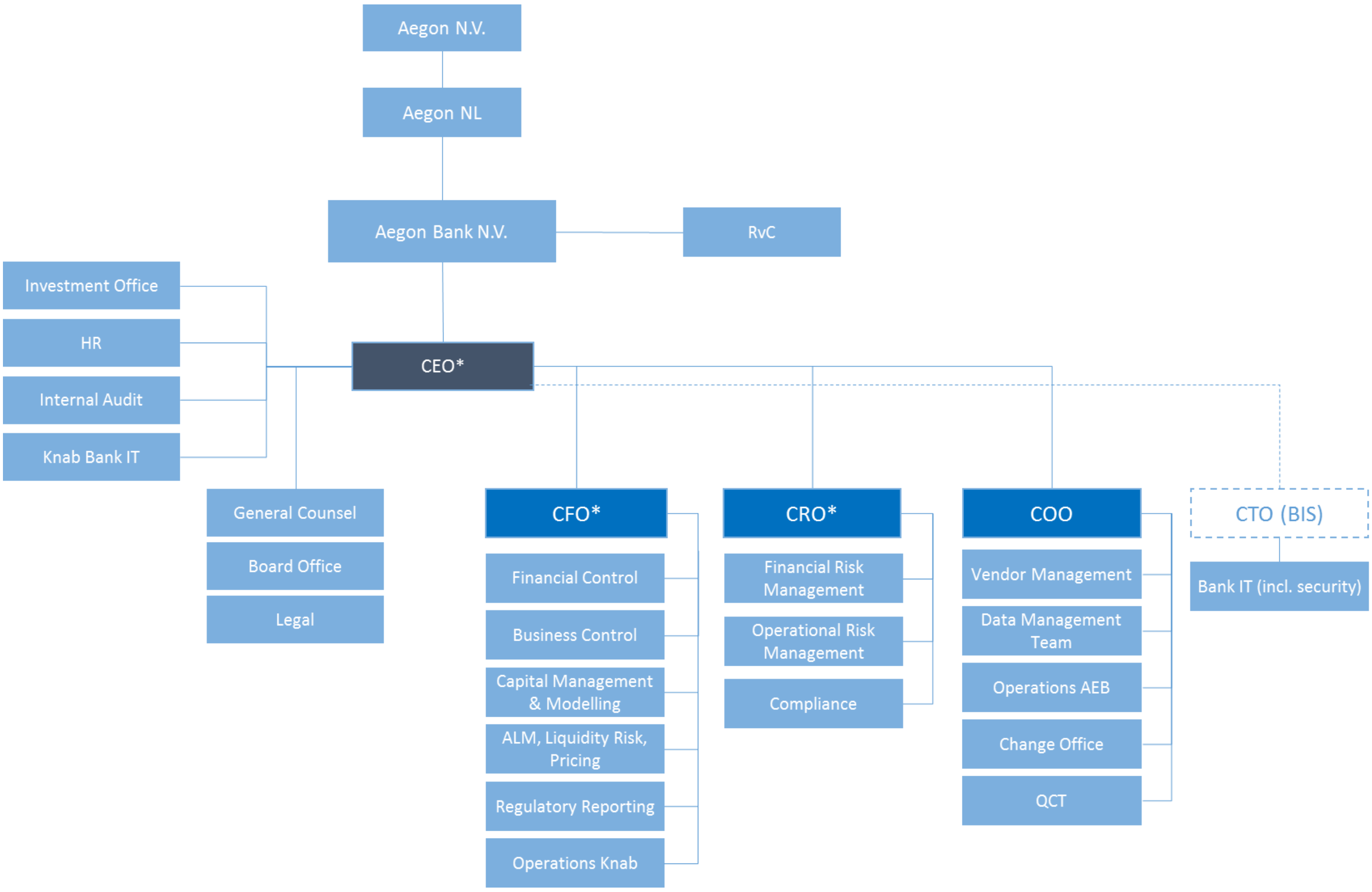

Figure 1: Organizational chart

3.2.1 Three lines of defense

AEB's risk governance structure is based on the "three lines of defense" model, as elaborated in the EBA Guidelines on Internal Governance (GL 44), 2011. The business is 'the first line of defense', the independent risk management function is the 'second line of defense', and the internal audit function operates as the 'third line of defense'. Each line has been assigned a specific role and responsibilities, in such a way as to ensure that the performance of tasks is segregated from oversight of the same tasks. At the same time, the three lines of defense need to work closely together to identify, assess and mitigate risks. The following sections describe each line of defense.

3.2.1.1 First line of defense: the Business Lines

The bank's first line of defense is responsible for performance, operations, compliance and effective control of risks affecting the business. The first line of defense consists of the following departments:

- Capital Management and Modelling;
- Asset & Liability Management;
- Liquidity Management and Pricing;
- Regulatory Reporting;
- Finance & Control;
- Customer Service;
- Business Information Services (IT);
- Operations;
- Marketing and Sales;
- Investment Office;
- Communications;

- Human Resources;
- Legal; and
- Quality Control Team.

The managers of the first-line departments are responsible for managing the risks that arise from the activities conducted by their department. They own the business processes in their departments and are responsible for identifying the key risks in their departments and processes by performing Risk Control Self Assessments (RCSAs). Furthermore, they are responsible for drawing up process descriptions and work instructions, designing and executing controls, and monitoring procedures to ensure that any residual risk (after implementation of the controls) remains within the risk appetite. They are also responsible for ensuring that the design and implementation of controls comply with the policies of AEB and, to the extent applicable, those of Aegon Nederland and Aegon NV.

3.2.1.2 Second line of defense: Risk Management and Compliance

The second line of defense comprises oversight functions with a major role for the risk management organization headed by the CRO. The Risk Department is independent from the business lines and responsible for supervising and monitoring financial and non-financial risks and controls in the first line. Within the Risk Management & Compliance department, Compliance, Operational Risk Management (ORM) and Financial Risk Management (FRM) are segregated functions.

3.2.1.3 Third line of defense: Internal Audit

The internal audit function performed by Internal Audit Nederland (IAN) is the third line of defense. IAN provides an on-going independent (i.e. outside of the businesses and risk organization) and objective assessment of the effectiveness of the internal control framework and risk management by the first two lines of defense, including financial and non-financial risks. IAN is responsible for testing the design and implementation of the risk control framework. IAN issues recommendations to ensure that any gaps are effectively addressed.

AEB’s Internal Audit charter and annual audit program based on the outsourcing agreement with IAN provide that IAN must perform systematic audits of the management of risks affecting the Bank’s activities. IAN reports directly to the Statutory Board of Aegon Nederland and AEB. IAN’s findings are always discussed with AEB’s management.

3.2.2 Risk committees

AEB has set up several risk committees composed of members of the management board and senior management. The risk committees are responsible for advising the MB on AEB's overall current and future risk appetite and strategy, and assisting the Statutory Board in overseeing the implementation of that strategy by senior management.

The Operational Risk Committee (ORC; hereafter referred to by its new name: Non-Financial Risk Committee (NFRC)) meets monthly and monitors the development of the non-financial risk profile against the defined risk strategy and appetite and decides on any mitigating actions as and when required. In addition, the NFRC discusses, promotes awareness of, and supports the organization on all subjects and issues relevant to managing AEB’s non-financial risks. The NFRC also advises and supports the MB in its supervisory role and oversees the implementation of the non-financial risk strategy so as to assess its adequacy against the approved risk appetite and strategy.

The Risk & Audit Committee (hereafter referred to by its new name: Enterprise Risk & Audit Committee Bank (ERAC-Bank)) meets quarterly and monitors, discusses, supports progress, and decides on all subjects and issues relevant to managing AEB’s strategic, business, operational, compliance and financial risks, taking the bank's risk appetite into account.

AEB produces a comprehensive set of risk reports to measure, monitor and manage the risks inherent to its business, including monthly NFRC and NFR highlights reports for the Statutory Board and quarterly ERAC-Bank reports.

Set up in 2018, the Credit Risk Committee (CRC) reports to the MB. It discusses and reviews the policies, methodologies and procedures related to credit and counterparty risk within the bank prior to AEB's Statutory Board's final approval. The CRC also discusses and approves transactions involving credit risk. The committee meets monthly and is chaired by the CRO.

Asset and Liability Committees (ALCOs) discuss and approve AEB's financial risk profile, except for credit risk, which has been delegated to the CRC. ALCOs exist on operational, tactical and strategic levels and they define the capital, interest rate mismatch, funding, liquidity and foreign exchange risk policies for AEGON Bank. The Strategic ALCO meets quarterly and the Tactical ALCO meets monthly. Both are chaired by the CFO.

The bank's Model Validation Committee meets at least once every quarter and is chaired by the CRO. The committee is responsible for discussing all model validation findings from a technical perspective.

3.3 Risk Appetite Framework

The risk appetite framework is defined as the overall approach, including policies, processes, controls and systems, through which risk appetite is established, communicated and monitored. It covers the Risk Appetite Statement (RAS) and risk limits and outlines the roles and responsibilities for implementing and monitoring the risk appetite framework.

AEB's risk appetite framework determines AEB's risk profile and forms part of the process of developing and implementing AEB's strategy and identifying the risks taken in relation to AEB's risk capacity. The risk appetite framework does not include the processes for establishing the strategy, developing the business plan, or the risk measurement and aggregation models and systems. However, the risk appetite framework is aligned with AEB's business plan, strategy development and capital planning, and provides a common framework and comparable measures for AEB's management body and senior management to communicate, understand, and assess the types and levels of risk that they are willing to accept. The framework identifies and assesses material risks for AEB and for its shareholders, depositors and customers.

The risk appetite process focuses on determining risk appetite at AEB level and across the different risk categories. It is therefore essentially a top-down process, based on AEB's ambition in terms of its risk profile and dependent on its capital and liquidity levels and ambitions, the regulatory environment, and economic conditions.

Figure 2 – Aegon Bank NV's risk appetite process

3.4 Risk Embedding

AEB's ERM Framework is thoroughly embedded in its key functional areas. This section describes how risk considerations are taken into account in decision-making on business planning, capital planning, liquidity planning, recovery planning, product development, and recruitment/human resources.

3.4.1 Capital Planning

The Internal Capital Adequacy Assessment Process (ICAAP) is a process aimed at ensuring AEB's capital adequacy in relation to the relevant risks and the bank's risk profile. As part of this forward-looking process, AEB identifies, assesses and, where possible, quantifies risks. Stress-testing and a forward-looking element are key parts of this process. The bank's management determines the capital required in relation to the bank's risk profile based on its internal standards for all relevant risks.

The bank reviews ICAAP for current capital adequacy and expected capital adequacy over the (three-year) medium term. The review projects new activities alongside current activities. Assessing the bank's capital adequacy is done by means of a quarterly ICAAP update presented to AEB's Strategic ALCO. The update provides a comparison between the actual situation and projections so as to allow AEB's management to take any action if necessary.

3.4.2 Liquidity Planning

The Internal Liquidity Adequacy Assessment Process (ILAAP) document describes AEB's liquidity risk management and funding plan. ILAAP aims to ensure liquidity adequacy and to manage liquidity risk in relation to all other risks identified. As part of ILAAP, senior management identifies, assesses and, where possible, quantifies elements of liquidity risk. AEB assesses and identifies potential shortcomings and takes management action when needed. Stress-testing and projections of future liquidity needs are key control components of ILAAP.

AEB's senior management have an important part to play in ILAAP. They are actively involved in all elements of liquidity risk. The CFO and CRO are ultimately responsible and accountable for their specific line activities and tasks.

3.4.3 Product development

Risk considerations form an integral part of AEB's product development and pricing policy. Product development and pricing decisions must take into account economic value creation requirements for shareholders, the fair treatment of customers, and the impact on statutory and regulatory requirements, speed of recouping capital expenditures, impact on financials, and impact on risk appetite statements and risk policies.

During 2017 AEB used the existing Product Approval & Review Process (PARP) and took part in meetings of the Product Approval Board (PAB). AEB will implement its own process and set up its own board in 2018.

3.4.4 Recruitment/Human resources

To ensure effective risk management, AEB also operates requirements for its employees, organizational culture, and risk awareness. The knowledge and skills that employees need to have are detailed in their job descriptions. The core values of both business lines clearly show the importance of risk awareness. Those values contribute to a culture where employees are involved in the organization and so there is a natural form of social control. AEB's core values are 'working together', 'exceeding expectations', and 'bringing clarity'. These values are in line with those of AEGON Group.

3.4.5 Business continuity plan and recovery plan

The business continuity plan describes the steps that need to be taken in the case of a business interruption due to a disaster, and the advance planning and preparations necessary to minimize losses and to ensure the continuity of major (and time-sensitive) business functions during a major business interruption. AEB defines the resources, actions, tasks and data required in preparing for and recovering from such an emergency.

AEB's Recovery Plan is intended to reduce the likelihood of default (resolution), and provides detailed actions that may be taken upon the occurrence of different stress scenarios so as to restore confidence, AEB's liquidity or capital position or a combination of the above.

3.5 Stress Testing

AEB's stress-testing framework aims to adequately assess the bank's vulnerability to low-probability but plausible events, and to determine the adequacy of the bank's own funds, liquidity position and earnings to withstand financial losses or liquidity outflows.

The stress tests are forward-looking and address the main risks to which the bank may be exposed.

As part of ICAAP and ILAAP, AEB tests its capital and liquidity adequacy periodically. The impact of extreme scenarios on AEB's earnings due to changes in interest rates is regularly assessed as part of the Interest Rate Risk in the Banking Book (IRRBB) report. The impact of credit risk exposures on AEB's solvency is assessed regularly by means of point-in-time scenarios and sensitivity analyses. The economic and regulatory capital in the stress scenarios needs to be sufficient to absorb the loss of equity and regulatory available capital, and the available liquidity needs to exceed the required liquidity under those stress scenarios.

The stress-test scenarios are designed, and parameter values set, annually. The validity of the assumptions is reviewed in the case of any significant market events, substantial changes to AEB's organization or strategy, or significant regulatory changes.

The results of the capital stress tests performed as part of ICAAP are presented quarterly to the Strategic ALCO, and the results of the liquidity stress tests are presented monthly to the Tactical ALCO. Additional stress tests may be performed on an ad-hoc basis.

AEB may also use stress tests as an internal communication tool across management levels to raise awareness and encourage discussions about existing and potential risks and possible management actions. Stress tests therefore support a variety of business decisions and processes as well as strategic planning.

AEB has designed an iterative process to review its stress tests. This means that some steps in the stress testing process are repeated. The stress-testing cycle consists of six steps, as shown in the figure below.

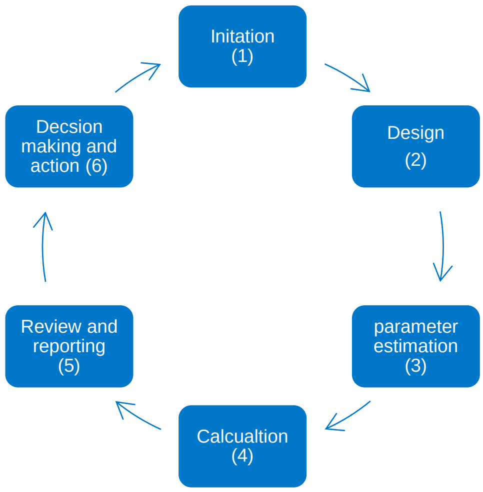

Figure 3: Stress-testing process

4 Capital Management

As part of its capital management policy, AEB identifies, assesses and, where possible, quantifies material risks. In accordance with internal requirements, AEB determines the amount of capital it needs to hold to cover those material risks relative to its risk profile now and in the years ahead, consistent with AEB's strategy.

The capital planning process is at the heart of AEB's capital management, linking the company's mission statement, strategy and risk profile to operational capital management. AEB's mission statement and strategy are key factors in defining its risk profile. The mission statement, strategy and risk profile together constitute the input for operational capital management, which sets the requirements and risk limits. The assumptions underpinning capital planning are reviewed and adjusted periodically throughout the year. Capital planning is also updated quarterly on the basis of actual outcomes, and reported to the MB and ALCO to allow frequent monitoring. Adjustments may be made on the basis of expected developments relative to actual outcomes, where necessary in accordance with existing contingency plans.

AEB's own funds significantly increased by EUR 72 million to EUR 546 million at 31 December 2017, driven mainly by a EUR 70 million increase in CET1 Capital, which in turn was driven by higher retained earnings due to the profit made in 2016. As shown in Table 1, AEB's capital ratios improved slightly by 0.1%, compared to 31 December 2016. AEB's capital position remains well above the internal and external requirements.

Metrics	**2016**	**2017**
CET1 capital	466	536
T1 capital	474	546
Own funds	**474**	**546**
Total exposure amount (in accordance with CRR)	12,187	13,870
Total Risk Exposure Amount (TREA)	2,282	2,613
CET1 ratio	20.4%	20.5%
Tier 1 ratio	20.8%	20.9%
Total capital ratio	20.8%	20.9%
Leverage ratio	3.9%	4.0%

Table 1: Key capital metrics

In millions of euros	**2016**	**2017**
Paid-up capital instruments	37	37
Share premium	352	352
Retained earnings	49	138
Profit or loss attributable to owners of the parent	89	45
Part of interim or year-end profit not eligible	-69	-45
Accumulated OCI	16	15
Adjustments to CET1 due to prudential filters	-2	-2
Other transitional adjustments to CET1 capital	-6	-3
CET1 Capital	**466**	**536**
AT1 Capital	8	10
T1 Capital	**474**	**546**
T2 Capital	-	-
Own funds	**474**	**546**

Table 2: Composition of regulatory capital

4.1 Own Funds

This section describes the definitions of the underlying elements of AEB's own funds in accordance with the CRR.

Common Equity Tier 1 Capital

The CET1 Capital deployed at AEB is wholly owned by Aegon Nederland in accordance with Article 50 of the CRR.

Additional Tier 1 Capital

AEB's AT1 Capital solely consists of 'Knab participations'. AEB's Knab label provides its customers with the opportunity to buy 'participations' in AEB with a fixed notional of EUR 5,000, no fixed maturity date and a coupon of 5% (subject to AEB's Maximum Distributable Amount; or MDA). Furthermore, these participations are transferable on an internal market on a monthly basis. Knab participations are considered AT1 Capital in accordance with Article 61 of the CRR.

Tier 2 Capital

AEB does not have any Tier 2 Capital instruments.

4.2 Capital ratios

Total capital ratio

AEB's Total capital ratio has remained stable, increasing slightly by 0.1% compared to 31 December 2016. The increase in AEB's capital was driven mainly by the addition of the audited 2016 earnings, which enabled AEB to grow its total exposure and related TREA without lowering its Total capital ratio. AEB aims to maintain a strong capital position with a minimal Total capital ratio of 19.8% and a minimal CET1 ratio of 15.4%.

Leverage ratio

In accordance with Article 429 of the CRR, AEB is required to maintain a (non-risk weighted) Leverage ratio above 3%. In accordance with Article 87 of the CRD IV, AEB is required to identify, monitor and manage the risk of excessive leverage. Furthermore, AEB aims to maintain a Leverage ratio above its minimum of 3.6%.

At 31 December 2017, AEB's Leverage ratio was 3.9%, well above the internal and external requirements.

Managing excessive leverage

The Total capital ratio, CET1 ratio and Leverage ratio are reported to the ALCO on a monthly basis, as are a three-to-five-year forecast and comparisons with AEB's capital plan. Internal buffers have been defined, including the actions to be undertaken if certain thresholds are breached.

SREP ratio

DNB annually reviews AEB's ICAAP as part of SREP and assesses whether AEB holds enough capital given its risk profile, its peers, and/or market conditions. Based on this assessment, AEB receives a SREP decision letter, in which DNB stipulates and substantiates AEB's specific SREP capital requirements. AEB's internal monitoring system ensures that AEB stays within the required SREP capital requirements.

5 Credit risk

5.1 Credit risk management

During 2017, credit risk was monitored through the ALCO structure. In 2018 a Credit Risk Committee (CRC) will be set up as a separate committee reporting to the MB. The CRC is responsible for monitoring the performance of the loan book and investment portfolio, focusing in particular on compliance with internal targets and limits as set out in the RAS. Chaired by the CRO, the committee comprises management and senior representatives of business and risk departments. The CRC will meet monthly.

Risk measurement methodology

The capital required under Pillar 1 is calculated in accordance with the Standardized Approach (SA) as prescribed in the CRR. Under the SA, the CRR prescribes a standard classification of the exposures per asset class in order to determine the risk weight. Subsequently, the regulatory capital requirement is calculated by taking 8% of the total RWA.

In addition to monitoring the credit risk regulatory requirements, AEB also monitors the credit risk developments in its portfolio through internal reports and dashboards. Compliance with the Credit Risk Policy is monitored on a monthly basis.

5.2 Credit portfolio

This section deals with AEB's loans and advances to banks, the public sector and retail customers, interest-bearing securities in the banking book, and derivatives.

The credit risk exposure, in terms of Exposure at Default (EAD), increased by EUR 1,637 million compared to 31 December 2016. While theThe overall risk weight percentage (RW%) has remained stable, indicating that the credit portfolio grew without increasing credit risk in relative terms. Growth was driven mainly by growth in the retail loan book in line with AEB's strategy.

Asset category	Asset class	2016			2017		
		EAD	**RWA**	**RW%**	**EAD**	**RWA**	**RW%**
Non-retail	Bank	394	83	21%	709	109	15%
	Sovereign	1,109	-	0%	1,608	-	0%
	Public Sector Entities	657	12	2%	458	12	3%
	Securitization	1,349	367	27%	738	179	24%
	Corporate	190	126	66%	188	129	70%
Subtotal non-retail		*3,699*	*588*	*16%*	*3,701*	*429*	*12%*
Retail	Mortgages	7,950	1,094	14%	9,300	1,313	14%
	Consumer loans	552	415	75%	772	580	75%
	SME loans	-	-	-	81	50	62%
Subtotal retail		*8,502*	*1,509*	*18%*	*10,152*	*1,944*	*19%*
Other	Other	32	15	47%	17	10	58%
Total		**12,233**	**2,112**	**17%**	**13,870**	**2,383**	**17%**

Table 3: Credit risk exposures by asset class

Retail portfolio

The Retail portfolio mainly consists of loans secured by mortgages on residential property and unsecured loans to consumers and small and medium-sized enterprises (SMEs). AEB has agreements with a number of loan platforms to be able to invest in consumer loans and SME loans. In order to ensure the availability of eligible loans, for some of the platforms AEB, under certain conditions, guarantees the purchase of loans for a fixed period of time and for a certain maximum amount.

AEB's mortgage portfolio is a very low-default portfolio, with just 0.5% of loans non-performing at 31 December 2017. Furthermore, 2.8% of consumer loans and 0% of SME loans were non-performing.

The impairment percentage has remained relatively stable from year to year. AEB's management recognizes that its consumer and SME loan portfolios are relatively new and rapidly growing (except for the CACF portfolio), making the portfolios less seasoned. However, these portfolios also have a much shorter duration (generally between 3-5 years) and lower loan balance.

Asset class	Performing loans			Non-performing loans	Total original EAD
	Not past due or Past due <= 30 days	Past due > 30 days <= 60 days	Past due > 60 days <= 90 days		
Mortgages	9,249	4	2	49	9,304
Consumer loans	773	9	3	22	807
SME loans	82	-	-	-	82

Table 4: Impairments in retail portfolio

Asset class	2016				2017			
	Original EAD	Impair-ments	EAD	% impaired	Original EAD	Impair-ments	EAD	% impaired
Mortgages	7,955	5	7,950	0%	9,304	4	9,300	0%
Consumer loans	569	19	551	3%	807	35	773	4%
SME loans	-	-	-	-	82	1	81	1%

Table 5: Performance of retail portfolio at 31 December 2017

Secured by mortgages on residential property

AEB's mortgages are originated and serviced by Aegon Hypotheken B.V., a subsidiary of Aegon Nederland. Aegon Hypotheken B.V. has strict underwriting processes, which are aligned with AEB's credit risk appetite in terms of its mortgage portfolio.

Table 4 shows that most of the mortgages are covered by NHG (76% of the total mortgage portfolio). The largest portion (7%) of non-NHG covered mortgages is in the 60%-80% bucket. AEB's strategy going forward is to maintain a high portion of NHGs in its mortgage portfolio.

LtV bucket	EAD	% of mortgage portfolio
NHG guaranteed amount	7,040	76%
Less than 20%	86	1%
20% - 40%	204	2%
40% - 60%	440	5%

60% - 80%	631	7%
80% - 100%	570	6%
100% - 120%	242	3%
More than 120%	87	1%
Total mortgage portfolio	**9,300**	**100%**

Table 4: Exposure to mortgages by LtV bucket at 31 December 2017

Consumer loans and SME loans

AEB invests in consumer loans and SME loans through several third-party lending platforms. The lending platforms provide a variety of services related to origination, client management, and collection and receivables processes. AEB has specific mandate agreements in place with each servicer detailing, amongst other things, AEB's credit risk appetite.

Table 5 shows the geographical distribution of the consumer loans and SME loans exposure by country. The Dutch portfolio has significantly decreased in line with expectations, as the Dutch consumer loans portfolio is a closed book and in run-off. The UK and German portfolios have increased rapidly through our strategic lending partners in these countries.

Country	2016	2017
The Netherlands	383	294
Germany	96	199
United Kingdom	47	293
France	27	68
Total	**551**	**854**

Table 5: Geographical distribution of consumer and SME loans EAD by country

Table 6 shows the industry distribution of the SME loans portfolio. The portfolio is considered well-diversified across several industries. AEB monitors the distribution based on the Hirschmann Herfindahl Index using the RWA by industry.

SIC category	2017
Wholesale and retail trade	11
Construction	10
Professional, scientific and technical activities	9
Manufacturing	8
Administrative and support service activities	8
Information and communication	7
Not classified	5
Accommodation and food service activities	4
Other service activities	4
Transportation and storage	3
Human health and social work activities	3
Financial and insurance activities	2
Arts, entertainment and recreation	2
Mining and quarrying	1
Real estate activities	1
Education	1
Total	**81**

Table 6: Industry distribution of SME loans EAD by industry (based on SIC classification)

Non-retail portfolio

The non-retail portfolio currently consists of an investment portfolio and a treasury portfolio (cash management). The portfolios are managed by Aegon Asset Management (AAM) and Aegon Group Treasury (Aegon NV's treasury department), respectively, under terms and agreements mandated by AEB.

For the exposure classes covered by the investment portfolio and treasury portfolio, credit quality steps are used to assign risk weights. For exposures to counterparties for which a credit assessment is available from an External Credit Assessment Institution (ECAI), AEB applies credit quality steps in accordance with the CRR. If no credit assessment or surrogate is available, the bank assigns a risk weight of 100%. For credit assessments of exposures to obligors, AEB uses the rating scales of S&P, Moody's, and Fitch.

Counterparty credit risk

Some of the non-retail bank portfolio is exposed to counterparty credit risk (CCR). The EAD related to CCR decreased from EUR 87 million in 2016 to EUR 52 million in 2017. In 2017 the collateral posted through daily margining was added and factored into current replacement costs for purposes of RWA counterparty credit risk calculations.

Past due and impaired (defaulted) loans

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 occurring 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.

AEB takes the following factors into account when deciding whether to impair a financial asset:

- the issuer or obligor being in significant financial difficulty;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, 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. If the terms and conditions of the financial asset are renegotiated, the terms and conditions of the new agreement apply in determining whether the financial asset is past due.

Detailed information on AEB's exposure at 31 December 2017 is provided in the Annual Report, pages 75 and 76.

Required capital

Table 7 shows that the capital required for credit risk increased by EUR 23 million compared to 31 December 2016, driven by growth in the retail portfolio and offset slightly by the decrease in securitization positions.

Asset category	Asset class	2016	2017
Non-retail	Bank	7	9
	Sovereign	-	-
	Public Sector Entities	1	1
	Securitization	29	14
	Corporate	10	11
Subtotal non-retail		*47*	*38*
Retail	Mortgages	87	105
	Consumer loans	32	46
	SME loans		5
Subtotal retail		*121*	*156*
Other	Other	1	1
Total		**169**	**192**

Table 7: Capital required for credit risk

5.3 Credit valuation adjustment (CVA)

AEB enters into derivatives contracts for hedging purposes only. Derivatives are used to hedge interest rate risk and FX risk. By entering into these derivatives, AEB becomes exposed to credit value risk on the derivatives contract. Credit value risk is defined as the risk that the value of derivative positions taken by AEB will fluctuate driven by changes in the financial position of the counterparty to the derivatives contract.

The process of entering into contracts and management of collateral on derivatives contracts has been outsourced to Aegon Global Derivatives and Hedging.

From May 2016, all new IRSs are cleared centrally, which reduces the credit value risk for AEB. All IRSs entered into before May 2016 are bilateral derivatives which are cash collateralized on a daily basis through International Swaps and Derivatives Association (ISDA) contracts and Credit Support Annexes (CSAs) with all counterparties.

Risk measurement methodology

The risk limit for counterparty risk is expressed in terms of the capital requirements for AEB’s derivatives contracts under CRR. Those capital requirements consist of a charge for the Credit Valuation Adjustment (CVA) and a charge for counterparty credit risk. Within the CRR framework, the CVA charge is only applicable to bilateral derivatives. Counterparty credit risk applies to both centrally cleared and bilateral derivatives.

AEB uses the Standardized Approach to determine its capital requirements for CVA risk, as prescribed in Title VI of the CRR and Article 384 in particular. AEB considers the Standardized Approach to be appropriate to estimate the capital it needs to cover CVA risk, given AEB’s size and relatively small and simple derivative positions.

Required capital

The total exposure decreased from EUR 48 million at 31 December 2016 to EUR 44 million at the end of 2017. AEB’s required capital for CVA risk remained stable at EUR 2 million during the year. The number of bilateral derivatives did not increase, with the credit quality of existing counterparties to OTC derivative transactions remaining stable in 2016 and 2017.

6 Operational Risk

The operational or non-financial risks within AEB's ERM framework are classified according to Aegon N.V.'s operational risk taxonomy and are defined as losses resulting from inadequate or failed internal processes, controls, people or systems, or external events. The lower level risk categories are grouped into the following eight higher level risk categories:

1. Business risk;
2. Legal, regulatory, conduct & compliance risk;
3. Financial crime risk;
4. Processing risk;
5. Systems and business disruption risk;
6. Tax risk;
7. People risk; and
8. Facility risk.

Tax risk, people risk and facility risk are deemed immaterial to Aegon Bank. The first five sub-risk types are further defined in the following sections.

6.1 Operational risk types

6.1.1 Business risk

Aegon defines business risk as the risk of losses due to failed or inadequate strategy execution, governance, project risk or pricing. In terms of business risk, the most significant underlying risks for AEB are:

1. Strategy execution risk;
2. Unbundling risk; and
3. Project risk.

To support the bank's growth and improve strategy development and implementation, AEB introduced new roles and departments in 2017. In order to adapt to the rapidly changing environment, Knab has adopted an agile way of working. Knab has a high NPS, which is one of the key drivers of growth in its customer base and not easy for new competitors to replicate. The Aegon Bank label has a solid position in the bank savings market ("Box 1"), with a broad network of intermediaries. AEB has a market share of 6.5% of Box 1 savings deposits.

Unbundling risk covers the largest part of the capital required for business risk. Unbundling risk is the risk of potential future losses due to a forced separation of AEB from its parent company Aegon Nederland or Aegon NV. Being part of a financial conglomerate has disadvantages as well as benefits. Benefits include the well-known brand, synergies from shared services, and potential (capital) support from the parent companies. Potential disadvantages are that the parent companies, or Aegon affiliates, may run into financial difficulties or face reputational problems, which could affect AEB's business model and/or financials. In such circumstances, AEB might need to separate some of its business and/or operational relationships from its parent company, or cut the ties with its parent company altogether, in order to ensure its own financial stability.

6.1.2 Legal, regulatory, conduct & compliance risk

AEB defines legal, regulatory, conduct & compliance risk as the risk of losses due to non-voluntary legal liabilities, inadequate legal documentation, inadequate patenting of brands or intellectual property, and the risk of impairment to the organization's business model, reputation, integrity or financial condition, resulting from failure to comply with laws, regulations or internal company rules and policies, or the late identification of significant legal and regulatory developments, possibly resulting in the inability to influence the final outcome. In terms of legal, regulatory, conduct & compliance risk, significant underlying risks for AEB are:

1. Legal & regulatory;
2. Company-related; and
3. Customer-related.

During 2017, AEB experienced a number of risk events arising from customers going bankrupt. In the case of bankruptcy, the customer's accounts have to be blocked immediately to prevent any further transactions being made by that customer. Significant scenarios that have been taken into account involving legal & regulatory risk are:

- Failure to comply with duty of care regulations;
- Failure to identify and adopt legal developments and requirements;
- NHG claim risk.

As regards non-compliance with its duty of care, AEB considers this to be a remote risk because the company has embedded its duty of care into the way in which it communicates with its customers and into its product approval and review processes. Moreover, there have been no significant incidents in the recent past.

Legal developments and newly introduced requirements are monitored by specialists from the Board Office and AEB's legal team. The implementation of large-scale new requirements is governed through portfolio management, which provides for the monitoring of significant projects undertaken by AEB.

NHG claim risk is the risk that not all claims covered by the NHG guarantee are recoverable by AEB. This might be caused by operational errors in the origination of the mortgages and/or incomplete files leading to non-compliance with the NHG terms and conditions.

Notwithstanding an NGH guarantee, losses may still occur on NHG guaranteed mortgages, for example if the defaulted individual loan was provided without full compliance with the NHG terms and conditions and is therefore ineligible for payment under the NGH guarantee. Also, under an industry-wide arrangement that came into force in 2013, AEB has a deductible of 10% of the difference between the loan and the underlying asset value.

Aegon defines customer-related risk as the risk of losses arising from non-compliance with regulations with regard to politically and reputationally exposed persons and export control transactions via countries against which sanctions have been imposed.

6.1.3 Processing risk

Processing risk is defined as the risk of losses due to inadequate or failing administrative processes or related internal controls, inadequate capturing of source data, reporting errors, modelling errors or failing outsourcing and supplier arrangements. In terms of processing risk, significant underlying risks for AEB are:

1. Reporting;
2. Modelling; and
3. Outsourcing & supplier.

AEB has put in place policies and procedures to ensure accurate and timely reporting. The models used by AEB support both the decision-making processes and reporting processes.

To manage its modelling activities, AEB operates (1) a Model Governance Framework, (2) a standardized Model Development Process, (3) an internal Model Development Team, and (4) a risk-based timetable for the development of key models (approved by the Management Board).

The main outsourcing and supplier risks are considered to be (1) discontinuity of services by outsourcing partners, and (2) the high number of outsourcing agreements. AEB has introduced monitoring and controls to mitigate these potential risks.

6.1.4 System risk

This is the risk of losses due to inadequate or failed business continuity planning, back-up and recovery, fall-back arrangements, IT security, IT maintenance or change management, identification of relevant technological developments and other technical causes of systems-related failures or errors. In terms of system risk, significant underlying risks for AEB are:

1. IT security (mainly related to cybercrime); and
2. Business continuity.

AEB continuously monitors, updates and maintains its IT systems and processes. The company also has in place business contingency plans (Aegon Nederland Business Continuity Plan for the Aegon Bank label, and Knab Business Continuity Plan for the Knab label) in order to effectively respond to events that could lead to disruptions to its systems and processes.

6.1.5 Financial crime risk

Aegon defines financial crime risk as a wrongful act, omission or breach of duty or trust intentionally committed by an Aegon employee, intermediary or external party and which could harm Aegon or any other party. This sub-risk type covers the following underlying risks:

1. Internal fraud;
2. External fraud; and
3. Money laundering.

All underlying sub-risk types are covered by the scenario analysis. For financial crime risk, AEB takes into account scenarios for all underlying risks and fraud-related incidents. These include, but are not limited to, phishing, skimming and identity fraud.

6.2 Risk measurement methodology

In order to determine the capital requirement for operational risk under Pillar 1, AEB uses the Basic Indicator Approach (BIA). Accordingly, the capital requirement for operational risk is defined as 15% of the average 'relevant indicator' for the last three of twelve-monthly observations[6] at the end of AEB's financial year. AEB also calculates a Pillar 2 capital estimate for operational risk. The total capital (Pillars 1 and 2) required for operational risk is shown in the following table:

[6] The relevant indicator for AEB is the sum of net interest income and net non-interest income and consists of the following elements (positive or negative): Interest receivables and similar income, Interest payable and similar charges, Income from shares and other variable/fixed-yield securities, Commissions/fee receivable, Commissions/fee payable, Net profit or net loss on financial operations and Other operating income.

	2016	2017
Operational Risk Pillar 1	11	16
Operational Risk Pillar 2	69	73
Total capital estimate	**80**	**89**

Table 8: Total capital estimate for operational risk

7 Market Risk (FX Risk)

AEB's functional currency is the euro, which means that FX risk arises if a currency other than the euro is used in transactions, creating exposure to potential adverse movements in exchange rates. AEB is exposed to FX risk through its UK loan portfolio. AEB's objective is to fully hedge the GBP-denominated lending activities on an IFRS equity neutral basis. FX risk in the loan portfolio could materialize if actual cash flows differ from expectations or there is any adverse movement in exchange rates and the hedge needs to be rolled over.

Risk measurement methodology

In order to determine its capital requirement for FX risk, AEB currently uses the Standardized Approach described in Articles 351-354 of the CRR. Article 351 provides that an institution must allocate capital for FX risk if the sum of its overall net FX position exceeds 2% of its total own funds. The net FX position for each currency is calculated by reference to the difference between the short FX position and long FX position, with the amounts being denominated in the reporting currency. The capital requirement for FX risk under the Standardized Approach is determined by taking the total net FX position denominated in the reporting currency (EUR) and multiplying it by 8%.

AEB applies the VaR methodology to monitor currency risk internally. The VaR represents the sum of potential financial losses on foreign currencies in one year with a confidence level of 99.5%. The VaR is also reported to the ALCO.

Required capital

AEB's required capital for FX risk was EUR nil million at 31 December 2017 due to its limited exposure to FX risk, with the net position remaining below the 2% threshold.

8 Interest rate risk in the banking book

8.1 Risk description

IRRBB is an important risk type inherent to banking activities. It arises from the transformation function performed by banks: funding long-term loans from short-term deposits. Maturity and interest rate type mismatches in the bank's assets and liabilities expose the bank to the risk of interest rate fluctuations on the money and capital markets with potential adverse effects on economic value and earnings. Interest rate risk is increased by the embedded use of options in many common banking products (e.g. prepayment options on loans or early withdrawal options for term deposits). Interest rates are an important driver for the valuation of and risks created by such options.

In line with EBA guidelines, AEB identifies three material categories of IRRBB: gap risk, option risk, and basis risk.

- Gap risk – risk related to the term structure of interest rate-sensitive instruments and arising from differences in the timing of rate changes, including changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Option risk – risk arising from options (embedded and explicit), where AEB or borrower can alter the level and timing of their cash flows, i.e. the risk arising from interest rate-sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so (embedded or explicit automatic options) and the risk arising from flexibility embedded implicitly or within the terms of interest rate-sensitive instruments, such that changes in interest rates could lead to a change in the client's behaviour (embedded behavioural option risk).
- Basis risk – risk arising from the impact of relative changes in interest rates on interest rate=sensitive instruments that have similar tenors but are priced using different interest rate indices. It arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate-sensitive instruments with otherwise similar rate-change characteristics.

Furthermore, credit spread risk in the banking book and pipeline risk are also part of AEB's risk identification and internal capitalization for IRRBB.

- Credit spread risk from non-trading book activities (CSRBB) – any kind of spread risk of interest rate-sensitive instruments that is not IRRBB or credit risk.
- Pipeline risk - the risk that interest rates (and hence mortgage rates) rise in the period between the offer and mortgage issue dates, i.e. mortgage loans have a lower coupon compared to the mortgage rates in the (current) market.

In line with EBA Guidelines on IRRBB[7], Articles 12 and 26, CSRBB is not included in AEB's Pillar 2 capital estimate. However, spread risk and pipeline risk are included in the Alert Zone as described in AEB's Capital Management Policy. For a more detailed description of the various risk types under IRRBB, please refer to the AEB IRRBB Risk Identification document.

[7] Reference: EBA/CP/2017/19. 31/10/2017

8.2 Risk measurement methodology

AEB calculates an IRRBB internal capital estimate for the following sub-risk types:

- Gap risk (Pillar 2);
- Option risk (Pillar 2);
- Basis risk (internal management buffer);
- Credit spread risk (internal management buffer); and
- Pipeline risk (internal management buffer).

The capitalization measurement approach for gap risk and option risk is determined as the worst outcome of a number of economic value-at-risk (EVaR) and earnings-at-risk (EaR) scenarios. The table below gives a general description of the capitalization measurement approach for both gap risk and option risk.

Consideration	Description
Combine EVE and EaR	Including risks to both earnings and economic value is a requirement under the EBA 2017 Guidelines on IRRBB. Article 26.e specifically requires that account must be taken of the impact on both economic value and earnings. Article 23 requires that the amount of capital be commensurate with the level of IRRBB and "institutions are not expected to double count capital for EV and earnings measures". Using the maximum of an earnings metric and value metric is an effective way of taking both metrics into account for capitalization purposes.
Use of scenarios	EBA requires banks *'to not only rely on the supervisory outlier test'* for their capitalization (Article 25, 2017 guideline). AEB interprets this as follows: institutions should take both the supervisory outlier test and internal scenarios into account. AEB believes that the most appropriate approach is to capitalize based on a set of scenarios. This involves taking both the supervisory outlier test and internal scenarios into account. AEB has chosen a set-up where it capitalizes for a number of internal and external scenarios. The seven AEB-specific scenarios are interest rate and CPR shock scenarios that have been developed internally in accordance with the nature, scale and complexity of AEB's portfolio. The scenarios make the capitalization formula more transparent and allow for the explicit inclusion of the supervisory outlier test and internal scenarios.
Choice of scenarios	AEB uses the following scenarios for capitalization purposes: **6 EBA scenarios:** • Parallel +200 bps • Parallel -200 bps • Short rates up • Short rates down • Steepener • Flattener **7 Internal scenarios:** • Moderate • Severe • EBA scenario • Rates up • Rates down • Long rates up • Long rates down

Table 9: General description of capitalization measurement approach for gap risk and option risk

8.3 Internal capital estimate

Table 11 shows the internal capital estimate for IRRBB at 31 December 2017. In AEB's Capital Management zones, AEB will adjust its capital allocation to IRRBB dynamically if AEB's IRRBB profile changes. More granular results are shown in the subsections below.

Risk type	2016	2017
Gap risk	30	38
Option risk	39	38
IRRBB Pillar 2 capital estimate	**69**	**77**

Table 10: Internal capital estimate for IRRBB at 31 December 2017 and 2016

8.3.1 Gap and option risk

Table 11 shows the granular measurement results for gap risk and option risk in terms of economic value and earning under various scenarios on the reference date (31 December 2017). AEB's internal capital estimate of IRRBB is based on the combined maximum loss of gap risk and option risk under interest rate risk scenarios. The table shows that AEB incurs the highest loss of EVE under the EBA -2% parallel shock scenario. Hence, the total capitalization for gap risk and option risk is EUR 76.5 million.

Gap risk capital is equal to the risk profile on the reference date (31 December 2017). The maximum loss due to gap risk is EUR 38.4 million worth of earnings under the EBA -2% parallel scenario, which is therefore the internal capital estimate for gap risk.

The same interest rate shocks are applied to the calculation of gap risk capital. The capital required for option risk is calculated as an additional loss on top of gap risk under different stress scenarios due to the sensitivity of the CPR modelling assumptions. Accordingly, the capitalization for option risk is calculated as the difference between the total IRRBB internal capital estimate and that for gap risk. As a result, the internal capital estimate for option risk will be EUR 38.1 million under ICAAP 2018.

8.3.2 Basis risk

At 31 December 2017, the maximum possible loss on hedge accounting due to basis risk was EUR 17 million. However, at 31 December 2017, this risk was offset by the unaudited profits and so the buffer allocated to basis risk at 31 December 2017 was EUR 0 million.

8.3.3 Credit spread risk

At 31 December 2017, the 50 bps credit spread risk scenario resulted in a possible loss of EUR 12.5 million after tax, resulting in a capitalization for spread risk capital buffer of 0.5% in the internal management buffer (TREA at 31 December 2017 was EUR 2,613 million).

8.3.4 Pipeline risk

At 31 December 2017, there were no mortgage orders outstanding and so AEB was not vulnerable to any pipeline risk at that time. AEB holds capital for pipeline risk in the internal capital management zones in case this risk arises as a result of large orders.

9 Liquidity Management

9.1 Liquidity Risk Management Framework

The primary goal of AEB's liquidity risk management is to ensure compliance with internal targets and external requirements at all times and to have sufficient liquidity available to support AEB's strategy. AEB's liquidity need is based on its risk appetite and business plans and the expectations and requirements of external stakeholders, such as its customers, regulators and investors.

The current framework of limits and target levels is described in the Risk Appetite document. AEB evaluates its risk appetite at least annually to ensure that the Risk Appetite Statement (RAS) and corresponding risk tolerances are still adequate. In addition, AEB assesses whether advanced or new insights should lead to adjustments being made to its business strategy and/or risk appetite.

Moreover, Liquidity Management & Pricing and FRM, in their first and second line of defense functions, assess AEB's liquidity adequacy on a monthly basis, providing actuals and forecasts for all RAS-liquidity metrics. AEB also has in place a liquidity trigger framework, consisting of different leading and supporting triggers related to the appropriate management urgency level. Both the current level of and outlook for these triggers are assessed. The trigger framework is laid down in the Recovery Plan and fully aligned with the RAS.

As described in AEB's Liquidity Risk Policy, Liquidity Management & Pricing is the first line of defense with regard to liquidity risk management. Aegon Corporate Treasury is responsible for managing the cash position while optimizing the relationship between risk and return. As such, the daily cash liquidity positions are reported by Aegon Corporate Treasury on a daily basis. Liquidity Management & Pricing actively monitors AEB's liquidity position, and reports its findings to the ALCO.

The second line control is FRM. FRM validates the models and assumptions used by Liquidity Management & Pricing and performs Risk Compliance checks, which among other things involves checking the Key Risk Indicators (e.g. LCR, NSFR, level of overnight cash), Key Performance Indicators and Recovery Plan Indicators against their predefined limits. Aegon Nederland's Internal Audit provides the third line of defense.

9.2 Funding Strategy

The exact timing and type of funding transactions depend on market conditions at the time, and on the actual funding need. If the funding need is higher than anticipated, there is room for additional securitizations or covered bonds. In addition, AEB can use its liquidity buffer through European Central Bank refinancing operations or repos with other parties. In case of liquidity stress, AEB has a Liquidity Contingency Plan in place, as part of its Recovery Plan.

9.3 Current liquidity buffer

At 31 December 2017, the liquidity buffer (HQLA[8]) amounted to EUR 2,211 million (adjusted for haircuts). A substantial part of the liquidity buffer consists of cash held in the DNB account (EUR 1,365 million), excluding the cash reserve requirement because this portion cannot be freely withdrawn. It should be noted that the underlying assets making up the liquidity buffer are all denominated in euros. The concentration risk of the liquidity buffer is limited.

[8] *The definition of High Quality Liquid Assets (HQLA) is based on the LCR.*

9.4 Liquidity Coverage Ratio

AEB uses the LCR to monitor the short-term resilience of its liquidity risk profile. The aim is to ensure that AEB has an adequate stock of unencumbered HQLA that can be easily and immediately converted into cash in private markets to meet the bank's liquidity needs under a 30-calendar day liquidity stress scenario[9]. The LCR is calculated by dividing the 'stock of HQLA' by the 'net outflow', for which a 100% regulatory minimum applies from 1 October 2015.

AEB's current strong short-term liquidity position reflects the high amount in cash deposits held with the ECB and the quality of AEB's investment portfolio, a large part of which consists of Level 1 or Level 2 assets. The Statutory Board highly values prudent liquidity management and having access to sufficient liquidity because that is important for institutional confidence and stakeholder management. The LCR ratio target level is based on that approach.

At 31 December 2017, the LCR ratio was 248%, which is above internal and external limits and requirements. If the LCR is forecasted to fall below the required internal limit, AEB will prepare a plan to increase the LCR. One option will be to sell non-qualifying positions and to convert assets into Level 1 or Level 2 assets. Other possibilities are to attract long-term funding (wholesale or retail). Please refer to the Appendix for details of the Liquidity Coverage Ratio.

9.5 Net Stable Funding Ratio

The NSFR requires AEB to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to AEB's regular sources of funding will erode its liquidity position in a way that would increase the risk of failure and potentially lead to broader systemic stress. The NSFR penalizes high reliance on short-term wholesale funding, encourages improved assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.[10]

The NSFR is calculated by dividing the 'Available Stable Funding' by the 'Required Stable Funding', both of which are defined for a 12-month horizon. The NSFR is reported to the Dutch Central Bank on a quarterly basis. In December 2017, the NSFR ratio was 134%, which is above internal and external limits and requirements. If the NSFR is forecasted to fall below the internal limit, AEB will prepare a plan to increase the NSFR. One option will be to convert positions with a high RSF weight into assets with a low RSF weight. In addition, actions may be initiated to attract long-term funding (wholesale or retail).

9.6 Liquidity Stress Testing

AEB uses three standard scenarios for internal Liquidity Stress Testing (LST) purposes:

- Group Scenario;
- Entity Specific Scenario; and
- Reverse Scenario

Pursuant to Aegon N.V.'s liquidity risk policy, AEB runs a stressed liquidity scenario that is also used by all other Aegon entities (the [Aegon] Group scenario). The Group scenario is defined as a "run on the bank" scenario where policy and contract-holders demand cash at a highly accelerated rate, applied over a duration of two full years. Demands for cash are

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[9] *http://www.bis.org/publ/bcbs238.pdf*
[10] *http://www.bis.org/bcbs/publ/d295.pdf*

driven by an immediate and permanent parallel increase in interest rates and outflows from savings deposits, among other things.

In addition, each Aegon entity is required to perform a stress test based on a locally defined liquidity stress scenario that is appropriate to the entity's individual business model (the Entity Specific Scenario). The Entity Specific Scenario for AEB has been designed in close cooperation with FRM, as detailed in the AEB LST Model Documentation.

For the Reverse Scenario, the savings deposits outflow is used as a risk parameter to which additional stress is applied until an excess liquidity of zero is reached.

Responsibility for the model and annual reviews lies with Liquidity Management & Pricing, with FRM being responsible for risk monitoring, reporting, and validation in accordance with the Model Validation Policy.

9.7 Liquidity Stress Management and AEB's Recovery Plan

In times of liquidity stress, it is important to take decisive and effective action. AEB's approach to liquidity stress is set out in its Recovery Plan. This plan defines liquidity triggers that activate the Crisis Management Team.

As part of AEB's Recovery Plan, a Contingency Funding Plan is in place that sets out the strategies for addressing liquidity shortfalls in emergency situations. Controls have been defined, all of which are intended to materially improve AEB's liquidity position in the event of a near-default. The plan describes for each control its potential impact and implementation, including responsibilities and expected hurdles.

9.8 Encumbered Assets

The Asset Encumbrance Ratio (AER) is related to liquidity risk, because an elevated level encumbrance means that there are fewer assets available for liquidation or capable of being pledged when needed.

Monitoring the AER has become more important with the issuance of four Covered Bonds on 31 December 2017. AEB has also issued securitized notes (SAECURE 13 Program) backed by mortgages. In addition, collateral submitted to other parties (Aegon Derivatives, KAS Bank) in order to conduct business activities has also been encumbered.

AEB launched a covered bond programme to meet its funding needs as part of its funding strategy in November 2015. Covered bonds are regarded by investors as a safe investment, given their high ratings and double recourse mechanism. In 2017, S&P and Fitch assigned an AAA/AAA rating to AEB's covered bond programme. In normal market conditions, the covered bond programme gives AEB access to additional investors alongside investors in the RMBS market.

AEB now has EUR 2,250 million in covered bonds (EUR 750 million in November 2015, EUR 500 million in May 2016, EUR 500 million in June 2017, and EUR 500 million in November 2017) outstanding under its covered bond programme.

At 31 December 2017, AEB had one RMBS transaction (SAECURE 13) outstanding as a source of funding, totalling EUR 750 million (1 tranche). AEB issued the RMBS program (SAECURE 13) on 27 March 2013. The first optional redemption date for this transaction is on 28 February 2018.

10 Remuneration

The remuneration of Aegon Bank's Board members is in line with Aegon Bank's remuneration policy.

Aegon Bank pursues a careful, sound and sustainable remuneration policy. Like Aegon Nederland, Aegon Bank has adopted the Regulation on Sound Remuneration Policies (*Regeling beheerst beloningsbeleid*), and its remuneration policy meets the requirements stipulated in that regulation. Aegon Bank's remuneration policy applies to the Management Board, management teams, senior management and other Aegon Bank employees, and complies with applicable national and international regulations and the Governance Principles. The policy is also consistent 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 Aegon Nederland's strategy, vision, core values and risk appetite.

Policy

In 2017, members of the Management Board and senior management were eligible for variable remuneration. In 2015, Aegon Group introduced a bonus pool. Due to the limited number of Aegon Bank employees eligible for variable remuneration, Aegon Bank's variable remuneration is part of Aegon Nederland's bonus pool.

Variable remuneration is based on performance and awarded according to predefined performance indicators at three levels: (i) Aegon N.V., (ii) Aegon Nederland N.V., and (iii) personal. The performance indicators are a mix of financial and non-financial criteria. The financial criteria are adjusted for estimated risks and cost of capital at the time of the performance appraisal. The non-financial criteria account for at least 50% of personal performance indicators and are set as objectively and measurably as possible.

The maximum variable remuneration for Aegon Bank's CEO is 20% of his or her fixed salary. The CEO is also a member of Aegon Nederland's Management Team. The 'on-target level' is 13.33%. For the other members of the Management Board and senior management, the maximum variable remuneration is 12% of their fixed salary, with the 'on- target' level being set at 8%.

Management Board members qualify as Identified Staff, who are subject to specific rules on the payment of variable remuneration. The variable remuneration for Identified Staff is paid in cash and shares on a fifty-fifty basis. Aegon Bank's CEO receives 40% of the variable remuneration awarded upfront, with the remaining 60% being deferred evenly over 3 years following the performance year. Variable remuneration is paid to other Identified Staff as follows: 60% of the variable remuneration awarded is paid upfront, with 40% being paid conditionally, equally divided over a 3-year period following the performance year. An ex-post assessment may identify reasons for lowering these amounts or not paying any variable remuneration at all.

An additional 2-year holding period applies to Aegon Bank's CEO's vested shares. The vested shares of other Identified Staff are subject to a 1-year holding period, with the exception of shares withheld to cover payment of any taxes due in connection with the vesting of the shares.

The total pay awarded to the Management Board and senior management is assessed regularly against the compensation package for similar positions at other financial companies in the Netherlands. In setting the remuneration policy for the Management Board, Aegon intends for overall compensation levels to be slightly below the median of peer positions elsewhere.

Governance

In accordance with Aegon Bank's remuneration policy, the Supervisory Board has the following duties and responsibilities: (i) approve the general principles of the remuneration policy, (ii) periodically assess the general principles of the remuneration policy, (iii) responsibility for the Management Board's remuneration policy, (iv) review the remuneration of Identified Staff, (v) instruct the Management Board to implement the remuneration policy, and (vi) instruct the Remuneration Steering Group and/or Internal Audit to assess the implementation of the policy and procedures covered.

Under the governance provisions of Aegon Bank's remuneration policy, the Supervisory Board is authorized, following the results of an ex-post assessment, to suspend or cancel all or any part of the variable remuneration granted conditionally to Identified Staff ('*malus clause'*).

Under the governance provisions of Aegon Bank's remuneration policy, the Supervisory Board is authorized to recover any 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).

The remuneration policy and its implementation were discussed in meetings held by the Supervisory Board during 2017. The Supervisory Board also discussed the level of variable remuneration. The Supervisory Board approved the 2017 variable remuneration targets for Identified Staff within the framework set out in the AGGRF. The remuneration was in line with Aegon Bank's remuneration policy.

Policy implementation

In 2017 the actual pay-out of fixed and variable remuneration was in line with the remuneration policy. Variable remuneration for the Statutory Board and other Identified Staff was paid 50% in cash and 50% in Aegon N.V. shares. In 2017, in accordance with Aegon Nederland's remuneration policy, 40% of the 2016 variable remuneration was paid directly to Statutory Board members, with the remaining 60% being conditional. That 60% will be paid in three equal parts over a period of three years, unless an ex-post risk assessment identifies any reasons for lowering the amounts or not paying any variable remuneration at all. In 2017, there were no situations within Aegon Bank that required applying the *malus* clause or claw-back clause to any variable remuneration awarded or already paid.

Supervisory Board's Remuneration Committee

Aegon Bank's Supervisory Board has set up a Remuneration Committee within the framework of the Regulation on Sound Remuneration Policies under the Dutch Financial Supervision Act 2011. The committee's remit is to monitor the existence of a sound remuneration policy and to ensure that the remuneration policy is generally consistent with the sound and prudent management of Aegon Bank in the long-term interests of its shareholders.

The Remuneration Committee acts in accordance with the principles laid down in the Regulation on Sound Remuneration Policies under the Financial Supervision Act 2011, the Banking Code, Aegon N.V.'s Global Remuneration Framework 2016, and Aegon Nederland's Remuneration Policy 2016.

At the balance-sheet date, no individual employed by Aegon Bank was paid a remuneration in excess of EUR 1 million.

11 Appendix

All amounts in this Section are in euros.

11.1 Disclosure of Own Funds

Common Equity Tier 1 capital: instruments and reserves		31-Dec-17	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
1	Capital instruments and the related share premium accounts	389,098,342	26 (1), 27, 28, 29, EBA list 26 (3)
2	Retained earnings	137,530,058	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	14,788,680	26 (1)
3a	Funds for general banking risk	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)
	Public sector capital injections grandfathered until 1 january 2018	0	483 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-436,909	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**540,980,171**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-4,532,213	
29	**Common Equity Tier 1 (CET1) capital**	**536,447,958**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	9,500,000	51, 52
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
	Public sector capital injections grandfathered until 1 january 2018	0	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase-out	0	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**9,500,000**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**9,500,000**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**545,947,958**	
Tier 2 (T2) capital: instruments and provisions			
51	**Tier 2 (T2) capital before regulatory adjustment**	**0**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	
58	**Tier 2 (T2) capital**	**0**	
59	**Total capital (TC = T1 + T2)**	**545,947,958**	
60	**Total risk-weighted assets**	**2,612,655,488**	
Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**20.53%**	92 (2) (a), 465
62	**Tier 1 (as a percentage of total risk exposure amount**	**20.90%**	92 (2) (b), 465
63	**Total capital (as a percentage of total risk exposure amount**	**20.90%**	92 (2) (c)
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)**	**33,139,493**	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	32,658,194	
66	of which: countercyclical buffer requirement	481,299	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.78%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	0	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	0	36 (1) (i), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	0	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	0	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	0	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	0	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	0	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)

11.2 Leverage Ratio

	Summary reconciliation of accounting assets and leverage ratio exposures	Applicable Amount
1	Total assets as per published financial statements	13,676,046,000
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	-37,281,997
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	231,378,764
7	Other adjustments	0
8	**Leverage ratio total exposure measure**	**13,870,142,768**

	Leverage ratio common disclosure On-balance sheet exposures (excluding derivatives and SFTs)	CRR leverage ratio exposures
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	13,595,535,443
2	Asset amounts deducted in determining Tier 1 capital	0
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**13,595,535,443**

	Derivative exposures	CRR leverage ratio exposures
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	4,750,003
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark to-market method)	38,478,558
11	**Total derivatives exposures (sum of lines 4 to 10)**	**43,228,561**

	Securities financing transaction exposures exposures	
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0

	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	309,197,106
18	(Adjustments for conversion to credit equivalent amounts)	77,818,342
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**231,378,764**

	Capital and total exposure mesure	
20	**Tier 1 capital**	**545,947,958**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**13,870,142,768**

	Leverage ratio	
22	**Leverage ratio**	**3.94%**

	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**13,595,535,445**
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	13,595,535,445
EU-4	Covered bonds	85,731,266
EU-5	Exposures treated as sovereigns	2,073,599,659
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	163,443,960
EU-7	Institutions	349,972,146
EU-8	Secured by mortgages of immovable properties	7,884,991,935
EU-9	Retail exposures	2,045,152,737
EU-10	Corporate	183,978,422
EU-11	Exposures in default	53,906,451
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	754,758,869

11.3 Countercyclical buffer

The total institution-specific countercyclical buffer rate is calculated according to the following formula:

$$ISCCB\ rate = \frac{\Sigma(CCyB_i * OFR_i)}{Total\ OFRCR}$$

$$ISCCB\ rate = \frac{\Sigma(CCyB_i * OFR_i)}{Total\ OFRCR}$$

Where:

ISCCB rate	The institution-specific countercyclical buffer rate.
CCyBi	Countercyclical buffer rate applicable to AEB's exposures to counterparty i.
OFRi	Own funds requirements for the relevant credit exposure to counterparty i.
Total OFRCR	AEB's own funds requirements for credit risk that relate to all of AEB's relevant credit exposures.

The countercyclical buffer rate for a particular country (CCyB) must be between 0% and 2.5% and may be calibrated by a public authority or body (a 'designated authority') that is responsible for setting the countercyclical buffer rate for that country in steps of 0.25% or multiples of 0.25%. Each designated authority must assess and set the appropriate countercyclical buffer rate for its Member State on a quarterly basis.

DNB has announced that the countercyclical buffer rate for the Netherlands is 0%. This means that a 0% CCyB rate applies to all exposures to obligors resident in the Netherlands. AEB checks quarterly whether DNB may have updated that decision. For other countries, AEB monitors possible changes to the CCyB rate and prepares an overview of all CCyB rates for countries to which it has exposures. This overview is updated on a quarterly basis.

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Breakdown by country	10	20	30	40	50	60	70	80	90	100	110	120
Netherlands	11,339,364,983				186,611,124		127,520,894		4,667,370	132,188,264	72.77%	0.00%
Germany	490,592,139				7,527,249		12,020,575		120,436	12,141,011	6.68%	0.00%
France	192,846,541				143,145,731		6,211,801		2,290,332	8,502,132	4.68%	0.00%
United Kingdom	459,814,157				64,825,204		17,182,679		1,097,485	18,280,165	10.06%	0.00%
Spain	716,123				55,828,906		-		893,262	893,262	0.49%	0.00%
Ireland	-				236,038,751		-		4,476,664	4,476,664	2.46%	0.00%
New Zealand	27,268,198				-		218,146		-	218,146	0.12%	0.00%
Sweden	30,442,118				-		432,209		-	432,209	0.24%	2.00%
Belgium	40,776,250				-		200,440		-	200,440	0.11%	0.00%
Italy	-				27,984,398		-		447,750	447,750	0.25%	0.00%
Luxembourg	21,239,351				-		-		-	-	0.00%	0.00%
Other Countries	182,888,254				-		-		-	-	0.00%	0.00%
Austria	90,915,941				-		-		-	-	0.00%	0.00%
Czech Republic	50,595,103				-		2,023,804		-	2,023,804	1.11%	0.50%
Norway	8,579,300				3,046,076		686,344		48,737	735,081	0.40%	2.00%
Portugal	19,495,012				2,505,275		-		146,188	146,188	0.08%	0.00%
Denmark	30,042,630				-		-		-	-	0.00%	0.00%
United States	10,042,643				10,620,983		803,411		169,936	973,347	0.54%	0.00%
Finland	136,390,326				-		-		-	-	0.00%	0.00%
Total	**13,132,009,070**				**738,133,696**		**167,300,304**		**14,358,161**	**181,658,466**	**100%**	

Amount of institution-specific countercyclical capital buffer		
10	Total risk exposure amount	2,612,655,488
20	Institution specific countercyclical buffer rate	0.0184%
30	Institution specific countercyclical buffer requirement	481,299

11.4 Disclosure of Asset Encumbrance

Template A - Encumbered and unencumbered assets									
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	3,435,153,275				9,607,203,246	1,299,451,828		
030	Equity instruments					179,563	0		
040	Debt securities	57,153,181		57,153,181	57,153,181	1,724,699,906	1,171,582,462	179,563	0
050	of which: covered bonds					85,731,266	58,463,068	1,724,699,906	1,171,582,462
060	of which: asset-backed securities					738,133,699	267,544,716	85,731,266	58,463,068
070	of which: issued by general governments	2,212,701		2,212,701	2,212,701	598,514,207	562,748,957	738,133,699	267,544,716
080	of which: issued by financial corporations	54,940,480		54,940,480	54,940,480	38,676,542	38,676,542	598,514,207	562,748,957
090	of which: issued by non-financial corporations					263,644,192	244,149,180	38,676,542	38,676,542
120	Other assets	3,378,000,094				7,882,323,777	127,869,366		
121	of which: mortgage loans	3,224,676,642							

Template B - Collateral received					
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued	
			of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	3,435,153,275	57,153,181		

Template C - Sources of encumbrance			
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010	**Carrying amount of selected financial liabilities**	**3,106,627,996**	**3,432,940,574**

11.5 Disclosure of LCR

		Total unweighted value	Total weighted value
Scope of consolidation (Consolidated)			
Currency and units (EUR)			
Quarter ending on (31/12/2017)			
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		2,210,598,983
CASH-OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	7,963,355,690	599,762,238
3	*Stable deposits*	3,896,804,129	194,840,206
4	*Less stable deposits*	4,068,521,631	406,892,102
5	Unsecured wholesale funding	146,739,063	59,451,174
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0
7	*Non-operational deposits (all counterparties)*	146,739,063	59,451,174
8	*Unsecured debt*	0	0
9	Secured wholesale funding		0
10	Additional requirements	362,935,466	145,533,138
11	*Outflows related to derivative exposures and other collateral requirements*	133,480,013	133,480,013
12	*Outflows related to loss of funding on debt products*	0	0
13	*Credit and liquidity facilities*	229,455,453	12,053,125
14	Other contractual funding obligations	10,000,000	0
15	Other contingent funding obligations	159,115,616	159,115,616
16	**TOTAL CASH OUTFLOWS**		963,862,166
CASH-INFLOWS			
17	Secured lending (eg reverse repos)	0	0
18	Inflows from fully performing exposures	168,410,904	154,830,391
19	Other cash inflows	10,789,159	10,789,159
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		0
EU-19b	(Excess inflows from a related specialised credit institution)		0
20	**TOTAL CASH INFLOWS**	179,200,063	165,619,550
EU-20a	Fully exempt inflows	0	0
EU-20b	Inflows Subject to 90% Cap	0	0
EU-20c	Inflows Subject to 75% Cap	179,200,063	165,619,550

21	**LIQUIDITY BUFFER**		**2,210,598,983**
22	**TOTAL NET CASH OUTFLOWS**		**798,242,616**
23	**LIQUIDITY COVERAGE RATIO (%)**		277%