Annual report 2020

Aegon Hypotheken B.V.

Aegon Hypotheken B.V.
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Report of the Board of Directors

1. General information

Aegon Hypotheken B.V. ('Aegon Hypotheken'), incorporated and domiciled in the Netherlands, is a private limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV The Hague, with registration number 52054454. Aegon Hypotheken is a wholly owned subsidiary of Aegon Nederland N.V. ('Aegon Nederland'). Aegon Hypotheken's ultimate holding company is Aegon N.V.

Aegon Hypotheken does not have its own Supervisory Board. However, a Supervisory Board is established on the level of its parent company Aegon Nederland. In this Report, where reference is made to the Supervisory Board, the Supervisory Board of Aegon Nederland is meant.

1.1. Strategy, purpose and mission statement

Aegon has existed for more than 175 years. In this period, we have grown from a local Dutch company into an international financial services provider we can be proud of. In the Netherlands we serve more than 2 million customers who have taken out an Aegon product or service. In addition, more than 3 million customers are using products or services from Knab, our online bank, or are customers with our service providers TKP Pensioen, Robidus, or Nedasco.

Aegon Nederland is transitioning from a traditional insurer to a customer-centric financial services provider. Our ambition is to become the most customer-centric and innovative financial services provider within the Dutch market. Our strategy is centered around Aegon Nederland's mission to "enable people to make conscious decisions about their financial future" ("wij stellen mensen in staat zelf, bewust keuzes te maken voor hun financiële toekomst"). To fulfil our mission, we continue to focus on the domains that are essential to ensure a healthy financial future for our customers: in the field of "Income" and "Living", for the present and for the future.

On December 10, 2020 at the Capital Markets Day, Aegon N.V. CEO Lard Friese announced the new global strategy and financial targets of Aegon N.V. Within the refocused strategy, the Netherlands (together with Aegon UK and Aegon US, and Aegon Asset Management as a global activity) remains a core country within Aegon N.V. where investments continue to be made in growth.

In order to achieve our strategic and financial goals, the various business units of Aegon Nederland are managed and organized in two categories:

- *Financial assets*: where we focus on maximizing value and gradually releasing capital to invest in strategic assets, and
- *Strategic asset*: the businesses in which we will invest to grow our customer base, improve customer retention, and margins.

Financial assets
The Life activities of Aegon Nederland are considered a "financial asset". The focus is on protecting and generating capital and on cost reduction by outsourcing of the servicing of the life-books to partners. With the exception of immediate pension annuities (DIP) and indexations of existing group pension customers, we no longer accept new customers as of 2021.

Strategic assets
We strategically focus on 3 pillars for growth (our "strategic assets"):

1. Mortgages (Aegon Hypotheken);
2. Bank (Knab / Aegon Bank); and
3. Workplace solutions for employers.

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

1.2. Composition of the Board of Directors

The Board of Directors consists of the following five members: Mr. M.J. Edixhoven (chair), Mrs. A. Schlichting, Mr. B. Magid, Mr. W.A. Hekstra and Mr. W. Horstmann (as of April 1, 2020).

1.3. Employees

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

1.4. Key elements of policy

During 2020, the Board of Directors discussed several important subjects and developments, regularly in the presence of the Solvency II key function holders and other senior managers. The Board of Directors discussed topics, such as: the further execution (and monitoring) of key strategic change initiatives, strategy of the business portfolio, Aegon transformation program, Agile transformation of the Aegon Nederland organization, cost and capital management, financial and non-financial controls, people management, responsible business, M&A opportunities, developments related to COVID-19 and relevant laws and regulations.

1.5. Remuneration policy

The remuneration policy of Aegon Nederland is designed in line with the applicable national and international regulations including the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V., the Law on Remuneration Policies for Financial Institutions (Wet beloningsbeleid financiële ondernemingen, or 'Wbfo') as included in the Dutch Financial Supervision Act (Wet Financieel Toezicht, or 'Wft') and the remuneration policy from Solvency II.

The remuneration policy of Aegon Nederland applies to all Aegon employees working for Aegon Nederland or its subsidiaries. The remuneration policy also applies to employees assigned to entities located in the Netherlands other than Aegon Nederland or its subsidiaries and employees under the direction and supervision of Aegon Nederland that perform activities for Aegon or its clients through outsourcing or otherwise. Entities may apply for an exception on the Aegon Nederland remuneration policy. The exceptions may not be contrary to the philosophy and principles of the AGGRF. The remuneration policy of Aegon Nederland is reviewed on an annual basis.

Remuneration and scope

Remuneration may include both financial and non-financial compensation provided by the company either directly or indirectly. Financial compensation consists of among other things cash, shares, employer's contribution, pension schemes. Non-financial compensation consists of among other things use of a car lease, private use of a mobile phone and computer. Other non-financial secondary benefits may include the work environment, the performance management (annual) HR-cycle, training opportunities and career development.

Variable compensation

The directives for the variable remuneration in the Aegon Nederland remuneration policy are adopted one-on-one from the AGGRF. Only statutory members of the Management Team of Aegon Nederland are eligible for variable remuneration. As of April 1, 2020, the Management Team of Aegon Nederland consists of the statutory board members and Mrs. Roth (General Counsel/Director Legal Affairs) and Mr. Parren (Chief People Officer). The remaining employees assigned to Aegon Nederland and/or working under the direction and supervision of Aegon Nederland or its subsidiaries are not eligible for variable remuneration.

Employees employed by other Aegon entities under the direction and supervision of Aegon Nederland that perform activities for Aegon or its clients through outsourcing or otherwise may under the remuneration policy of their own entity be eligible for variable remuneration. This variable remuneration is also subject to the directives for variable remuneration in the remuneration policy of Aegon Nederland, with the exception of activities performed under other sectoral legislation.

Application of the remuneration policy

The remuneration policy (including variable remuneration) and its implementation was discussed in meetings held by the Supervisory Board on several occasions during 2020. The Supervisory Board approved the 2020 performance targets for Material Risk Takers (MRT) within the framework set out in the AGGRF. It also approved payment of the variable remuneration to MRT relating to prior variable compensation plan years that vested in 2020. This remuneration was within Aegon Nederland's remuneration policy. No retention payments were made. There were no welcome and exit arrangements granted in 2020 outside of the policy. The total income of the Board of Directors in 2020 was in line with the remuneration policy and the total variable remuneration of senior management (including members of the statutory board) did not exceed 20% of fixed income for the whole of Aegon Nederland. The total amount of variable compensation paid out (in cash or shares) to the members of the Management Team of Aegon Nederland in 2020 was EUR 0.5 million. No individuals received a total annual compensation equal to or higher than EUR 1 million. The malus clause was applied on variable remuneration granted conditionally to MRT, there was no claw back of variable remuneration.

For more information regarding the remuneration of the Board of Directors please refer to note 17 'Commissions and expenses' in the consolidated financial statements.

1.6. Regulation and supervision

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The supervision of financial institutions pursuant to the Wft rests with DNB and the Authority for the Financial Markets ('AFM').

DNB is responsible for prudential supervision. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector.

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

The Dutch Data Protection Authority (Dutch DPA) supervises processing of personal data in order to ensure compliance with laws that regulate such use. The tasks and powers of the Dutch DPA are described in the General Data Protection Regulation (GDPR), supplemented by the Dutch Implementation Act of the GDPR.

1.7. COVID-19

Since the COVID-19 outbreak in early 2020, Aegon Nederland and its subsidiaries have been directly affected by the pandemic and its impact. We also recognize the significant challenges facing our employees, customers, and the community both in recent months and in those to come, and we have taken proactive steps to support them as they navigate through the pandemic.

Impact on Aegon Hypotheken's financial performance

The impact of COVID-19 on Aegon Hypotheken was relatively limited. However, as long as this pandemic remains Aegon Hypotheken will continuously asses this.

While restrictions on employee travel and scaling back of sales and marketing activities generated cost savings, the pandemic also triggered additional expenditures, such as IT costs associated with switching to a home-working set-up.

Impact on our stakeholders

As events unfolded around COVID-19, Aegon Nederland's customers, employees, and other stakeholders began to see their lives disrupted in a number of ways. Since the very start of the pandemic, we have taken proactive measures to help our colleagues and other partners navigate this intensely challenging period.

Early 2020 when the pandemic struck, our priority was to ensure the safety and wellbeing of our employees. Swift, decisive action by our IT staff allowed our teams to transition smoothly to homebased working. As well as IT tools and hardware, we also provided colleagues with desk furniture to make the switch as practical and comfortable as possible. Alongside this, we have worked hard to give our employees the tools and day-to-day support they need to feel happy and motivated while working outside the office by introducing a 'Working from Home' framework.

We are acutely aware of the difficulties and disruption that the pandemic has caused for our customers, suppliers, and other partners. Our smooth transition to working from home and fast adoption of virtual conferencing tools such as Microsoft Teams have enabled us to maintain an uninterrupted service for Aegon Nederland's customers. However, we have also gone one step further, by exploring innovative ways to remain closely connected to our customers and provide additional support during this challenging time. Aegon Nederland launched the 'Blue Heart' campaign to provide customers with flexibility around their insurance, pension, and mortgage payments.

As a company that strives to be a good corporate citizen, we recognized the importance of providing immediate COVID-19-related support to the community where we operate. Aegon Nederland contributed EUR 250,000 for healthcare workers' insurance through the Dutch Insurance Association. Aegon Nederland also gave support to educational charities that are helping disadvantaged children with home-schooling by providing free laptops. In addition, Aegon Nederland has helped to spearhead a program led by Nibud (the Dutch National Institute for Family Finance Information) to train financial services workers to offer people support and advice on managing their personal finances during the pandemic. Aegon employees have responded enthusiastically to this worthwhile initiative.

1.8. Business developments

Mortgage production in the Netherlands has grown significantly with 26% in 2020, from EUR 123 billion[1] in 2019 to a record high of EUR 155 billion in 2020. This increase in demand for mortgages was partly driven by a peak in refinancing of mortgages in the first wave of coronavirus infections as interest rates rose temporarily. In addition, the 'starters' and 'doorstromer' segments have grown. Plus numerous customers increased their existing mortgages for purposes like renovation or extension of their houses.

There are some changes in top 10 lenders in the Dutch mortgage market. After top 3 with Rabobank, ABN AMRO and ING several lenders are very close to each other in terms of market shares. Some parties have changed position in the ranks between 4 and 10 but differences are small. With a market share increased to 6.1% (2019: 5.3%) Aegon Hypotheken now has the fourth position in the Dutch mortgage market. The mortgage production of Aegon Hypotheken increased significantly in 2020 because of higher mortgage production for spread and fee-based business, from EUR 7.4 billion in 2019 to EUR 11.0 billion in 2020.

The low mortgage rates, still high consumer confidence in housing market (despite COVID-19) and high rentals for housing are important factors that generate persistent demand. The total number of mortgages originated in the Netherlands increased with 15% to 452,000. The average mortgage amount increased to EUR 342,000 (2019: EUR 320,000).

Low interest rates causing high demand for refinancing resulted in growth in mortgage production in 2020. As higher house prices and shortage of supply of suitable houses hinder potential entrants, the group of starters in the market stays low. Shortage of new-build homes has increased. The aging population will cause major challenges regarding appropriate housing and living at home in combination with care. Financial advisers are increasingly confronted with questions about surplus value, home modification, donations and inheritance law.

In 2020 house prices have risen at an annual rate of 10%. In the development of housing prices there are clear differences between different housing types and regions with rural areas showing stronger increases than the Dutch urban agglomeration area. However, the increase in house prices is more widespread over the country. In certain, urban areas there is shortage in cheaper and middle-class residences.

Aegon was runner up in the 2020 "Gouden Spreekbuis" awards for the Best Mortgage Lender and Best Mortgage Broker, recognized for its great service towards both consumers and intermediaries in combination with improvements on digitalisation.

Innovation

Innovation is key for the future of Aegon Nederland. In 2020 an Innovation Board has been installed to further enhance and streamline the processes and coordination of innovation. This board oversees the innovation funnel for Aegon Nederland, ensures the right measures are taken in each step of the funnel and increases the speed at which decisions on innovation projects can be made. The board is supported by an innovation team that ensures swift testing, reporting and delivery of chosen projects.

This has resulted in a several new propositions that are currently in proof-of-concept or in scale-up phase. One of them is FinSnap, an online tool that supports employers and advisors in helping consumers to gain insight in their personal financial situation, at the heart of Aegon Nederland's mission. Aegon Nederland is also developing proof-of-concepts together with technology partners in the area of Robo-advice, and customer contact optimization. Furthermore, we participate in the sectoral innovation platform to work on industry-wide topics such as fraud detection. Besides these broader topics, several value streams have also initiated dedicated projects, of which an example is the improved self-service in our mortgage business.

Privacy

Privacy is a key risk in the data strategy of Aegon Nederland. To safeguard the interests of our customers, employees and other stakeholders, a Privacy Roadmap 2020-2021 was rolled out in order to further enhance the maturity of privacy compliance. This has resulted in an increased level of maturity and going forward, Aegon Nederland will continue to further strengthen the maturity in accordance with the Roadmap. Furthermore, an ethical framework for data driven decision-making was developed to incorporate ethics into the privacy by design-framework.

Aegon Nederland has taken measures to mitigate risks related to personal data breaches. Aegon Nederland has procedures in place to ensure that personal data breaches can be easily reported internally and that breaches are followed up to mitigate the consequences and avoid breaches in the future. Breaches that are assessed to

[1] The difference with EUR 104 billion reported in last year's annual report is due to different method of reporting by Kadaster.

likely result in a risk to the rights of a customer, employee or other stakeholders are reported to the Dutch Data Protection Authority. Awareness of these procedures and the importance to take due care when processing personal data to avoid breaches, are an important part of the Aegon Privacy Awareness program.

In 2020 there have been personal data breaches, such as letters or emails sent to the wrong address and by human error. In case of personal data breaches imposing a risk to the rights of our customers, employees and other stakeholders, these were reported to the Dutch Data Protection Authority and appropriate action by Aegon Nederland was undertaken.

IT

Aegon Nederland pays a lot of attention to digitalizing and innovation. In 2020 customer identity access was improved by implementing iDIN and DigiD. The different customer journey initiatives increased the NPS (Net Promotor Score). Aegon Nederland is continuously improving the central Data Lake to decouple front and back end. This decouples also the changes in the chain of applications, so no change has to wait on another change. Aegon Nederland is moving to a thin platform, to enable the different Business Units to maximize the digital customer interaction. The application strategy moving towards cloud and SaaS (Software as a Service) is on track. For Solvency II and IFRS17 a closed model run environment was built. In 2020 the agile way of working was embedded in all value streams and the Enabling Shared Services of IT. Staff functions will follow.

1.9. Transformation program

Aegon started a world wide transformation program in July 2020, supported by an external company. The aim is to transform into a winning company that provides excellent service to our customers, that pays a predictable dividend to our shareholders, has a solid social position and increases Aegon's execution muscle. Customers and shareholders need to know where they stand and be able to count on us more. What is very important with this transformation program is that we not only look at the costs, but also at the growth opportunities for Aegon Nederland, like in our banking, mortgages, and pension operations.

In addition, the entire company will have to change rhythm to sustainably improve Aegon's performance worldwide. With the transformation program there will be a different way of working in order to be able to perform better and faster on a structural basis. Much of that comes down to enhanced focus and more discipline. We address cultural issues with 'health initiatives' and the program helps us improve our behavioral patterns and skills in building our execution muscle. And it supports us in properly understanding and substantiating the added value of our activities. It is important that we set priorities and make clear choices. What does something really deliver for Aegon and what are the necessary investments for that? What are the benefits of our business cases and how do we measure them. It starts small and eventually everyone in the organization will get involved.

Today, the contribution of Aegon Nederland to the world wide transformation program contains more than 300 growth- & cost saving initiatives, managed by +100 initiative owners, delivering +2,500 milestones before July 2022. The daily management of the program is executed by a Transformation Office (TO), lead by the workstream lead and chaired by a Sponsor (CEO of Aegon Nederland) and in close cooperation with Finance, central TO and other business units.

1.10. Risk Management

For information regarding risk management please refer note 4 'Risk Management' in the consolidated financial statements.

1.11. Brexit

On January 31, 2020, the United Kingdom (UK) officially left the European Union (EU). Just before the Brexit transition period ended, the EU and the UK closed a new "Trade and Cooperation Agreement" outlining their post-Brexit relationship. The agreement does not include a comprehensive chapter on financial services. Aegon Nederland's main areas of concern have been addressed, as the EU has so far temporarily recognized derivatives clearinghouses and securities settlement, where a rift could have threatened the stability of Europe's financial markets. The recognition of London Clearing House (LCH) as an eligible clearing house for EU financial institutions has been extended to June 2022. In recent years, Aegon Nederland has prepared for the possibility of a Hard Brexit and has worked towards replacing its UK counterparties. For centrally cleared derivatives, Aegon Nederland has moved its entire swap book from LCH to Eurex. The development of the liquidity and eligibility of Eurex and LCH will be carefully monitored by the Risk & Capital Committee of Aegon Nederland in 2021.

1.12. IBOR transition

The future of IBORs (Interbank Offered Rates) such as Euribor, EONIA and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/panel input data. In the EU this is adopted in the new Benchmark Regulation (BMR), which stipulates that only BMR compliant benchmarks may be used within the EU.

Aegon Nederland recognizes that IBOR transitions potentially have implications for all reporting units, including our insurance, asset management and banking activities. Despite current uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including a.o. derivatives, corporate bonds, structured debt products, deposits and mortgages.

As part of the IBOR transition during 2020, the discount rate switch from EONIA (Euro Overnight Index Average) to ESTR (Euro Short-Term Rate) took place for most of the derivatives in our portfolio. The differences in market value due to this discount switch did not have a material impact on the financial statements of Aegon Nederland and its subsidiaries.

1.13. Asset and Liability Management and Financial Instruments

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

Aegon Hypotheken has a sizeable portfolio of predominantly fixed rate residential mortgages, which are financed by mainly floating rate structures. This results in an interest rate mismatch, which is outside the tolerance in our risk strategy. Derivatives are used to manage the interest rate mismatch between the asset and the liabilities.

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

Aegon Nederland's Risk & Capital Committee, which meets at least once a month, determines and monitors the capital position, the balance sheet as well as the income statement of Aegon Hypotheken. The focus of these meetings is, among other activities, to match the consumer demand for mortgage loans to the investor appetite for mortgage loans, to decide on the use of warehouse financing facilities and to decide on the need for securitizations of residential mortgage portfolios in order to improve the liquidity and funding position of Aegon Hypotheken.

2. Financial information

2.1. Developments during the year

Mortgage production and portfolio
The mortgage production of Aegon Hypotheken increased compared to 2019, because of higher mortgage production for spread and fee-based business. The mortgage production for fee business was EUR 7.2 billion in 2020 (2019: EUR 4.3 billion). The mortgage production for Aegon Nederland group's own account was also higher with EUR 3.8 billion (2019: EUR 3.0 billion) of which EUR 154 million (2019: EUR 220 million) for the account of Aegon Hypotheken. These mortgages have been originated using both the Aegon and Robuust label, with the Aegon label being responsible for the vast majority of the overall production volume.

The mortgage production for fee-based business is concentrated in the Dutch Mortgage Funds (DMF1 and DMF2) and other investment vehicles. DMF has specifically been created, in cooperation with Aegon Asset Management, to establish third party funded mortgages. DMF offers institutional investors the ability to invest in Dutch residential mortgages granted by Aegon Hypotheken for the account and risk of DMF. The fund pays Aegon Hypotheken a fee for originating and managing the mortgages. DMF has proven to be a successful proposition in market. The fee-based business complements the spread business in which the mortgages are held by either Aegon Hypotheken or other entities within the Aegon Nederland group for their own account and risk. Over time, other investment solutions have been added, offering investors the opportunity to invest in segregated pools of mortgages instead of a comingled fund.

Furthermore, Aegon Hypotheken has revised its strategy with regards to so-called white label mortgage propositions (where Aegon Hypotheken is not the lender-of-record). During 2020, the Robuust label was selected as the label with the most potential going forward, whereas other white labels were wound down for new funding commitments. The Robuust label, currently only invested in by Aegon Nederland group's own account, is planned to be opened for third party investors as well.

Early in 2020, emergence of the Covid-19 pandemic led consumers and advisors to expect that interest rates would increase going forward. This fuelled a strong increase in demand for mortgage loans, including demand from consumers nearing interest resets. As such, facilitated by an increased investor pipeline, new loan originations have increased substantially in 2020, with a moderate increase in full repayments on the existing loan portfolio. Aegon Hypotheken has continued its pro-active approach to arrears management and taken considerable effort to inform and support its customers. This approach has resulted in a further decrease in arrears in 2020. The number of foreclosures has also reduced, in small part as a result of a temporary freeze on foreclosures during the first half year, but mostly reflecting the low number of loans in default as a result of pro-active and successful arrears management.

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

The mortgage portfolios held for own account and for third parties show higher repayments and prepayments due to low interest rates. This has accelerated the decline in average interest rates in the portfolio which leads to pressure on interest margins going forward. Furthermore, the increased level of contractual repayments, supported by (fiscal) regulations, results in a shorter duration of the mortgage portfolio.

Laws and regulations
In 2020 Aegon Hypotheken finalized the implementation of its new policy with regard to LTV class migration. Currently all customers have the benefit of an automatically adjusted interest rate when their mortgage falls to a lower LTV class. Adjustment is based on the historic interest rate difference.

In accordance with the 'Tijdelijke Regeling hypothecair krediet' (TRhk) Aegon Hypotheken has adjusted its origination process and guidance for its loan origination department in anticipation of the Covid-19 outbreak. As government measures to address the crisis-effect on the customers income situation, Aegon Hypotheken adopted a more prudent policy towards certain branches. In this way Aegon Hypotheken warrants prudent lending for its customers. Customers whose payment capacity was affected by (the government measures with regard to) the Covid-19 crisis, were aided in coping with their financial difficulties as to avoid foreclosure.

In accordance with the Action Plan of the 'Verbond van Verzekeraars' Aegon Hypotheken has continued its effort to activate clients with an Interest Only (IO) mortgage. These clients are informed of the risks that come with their IO mortgage product and are informed about the options to address these risks. Besides a general movement towards the lower risk buckets, activities aimed at very high risk customers showed positive outcomes.

Financial results
The result in 2020 was a profit of EUR 47.9 million (2019: profit of 26.8 million before tax). This increase is mainly the result of the realized gains on the sale of mortgage portfolios to Aegon Bank N.V. and Aegon Levensverzekering N.V. of EUR 28.2 million in 2020. This sale was an incidental transaction due to overall ALM alignment within the Aegon Nederland group. These realized gains were partly offset by lower interest income due to lower interest rates and the decrease of mortgage loans portfolio due to the aforementioned sale.

For the services rendered to other Aegon entities and external fee partners, Aegon Hypotheken receives management fees.

Solvency and liquidity
Shareholders' equity at December 31, 2020 amounts to EUR 182.7 million compared to EUR 191.3 million at year-end 2019. The decrease is caused by the dividend payment to Aegon Nederland which was higher than the net profit of 2020.

Aegon Hypotheken's solvency and liquidity position have been assessed as part of Aegon Nederland's solvency and liquidity management and is considered as adequate during the whole year 2020.

Cash flows and funding
To meet its liquidity and solvency requirements more effectively the funding of Aegon Hypotheken is a combination of long term secured market transactions, and short term secured warehouse financing facilities. Additionally, Aegon Hypotheken has long term secured and unsecured loans from Aegon Levensverzekering and a committed revolving credit facility from Aegon N.V..

The long-term maturity of the mortgages requires a funding profile that matches this maturity. Aegon Hypotheken therefore obtained longer term loans as part of the Saecure program. These loans have an expected maturity derived from the FORD which stands for the First Optional Redemption Date. This is the first date that Aegon Hypotheken has the right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. We refer to note 11 'Borrowings and group borrowings' of the consolidated financial statements for more information on these loans.

Further funding is available from the undrawn part of the current facilities as per December 31, 2020, which are EUR 0.4 billion (2019: EUR 1.2 billion) from external (warehouse) facilities and EUR 0.1 billion (2019: EUR 0.3 billion) from the liquidity line of Aegon N.V. These facilities provide room for short-term liquidity needs.

In 2020, the Dutch mortgage market witnessed a dramatic increase in the number of applications (especially in March and April). As a consequence, Aegon Hypotheken established more, and more flexible, temporary funding facilities to bridge the time between the production of mortgages and the sale to internal and external investors. By the end of 2020, Aegon Hypotheken had become less reliant on capital markets to fund its mortgage production. The current funding structure leads to a sustainable long term business model for Aegon Hypotheken with more robust funding sources.

3. Corporate Governance

Aegon Nederland voluntarily has a Code of Conduct in place. This Code of Conduct (which can be found on www.aegon.com) is intended to provide further clarity on sound and responsible business practices, and ensures a common approach for how we carry out our business in Aegon Nederland's markets.

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

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

Governance principles

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

Accountability

Aegon Nederland presents an overview of the application of governance principles. This is done on behalf of the insurance companies Aegon Levensverzekering N.V., Aegon Schadeverzekering N.V. and Aegon Spaarkas N.V. The accountability report also forms an integral part of the annual reports of these insurance companies. References in the remainder of this annual report to 'Aegon Nederland' include these insurance companies.

Supervisory Board[2]

The Supervisory Board functions as the supervisory board for Aegon Nederland and each of the insurance subsidiaries of Aegon Nederland that are under supervision of DNB.

Membership and expertise

The majority of the members of Aegon Nederland's Supervisory Board are formally independent and operate independently in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2012 (Beleidsregel geschiktheid 2012) and in accordance with the Principles and requirements of DNB's Suitability Policy Rule 2020 (Beleidsregel geschiktheid 2020). Given the members' different professional and educational backgrounds, ages and range of knowledge and experience, the Supervisory Board has a broad-based membership. In Aegon Nederland's view, the members' knowledge and experience complement each other. Aegon Nederland has set out in detail the Supervisory Board's duties in the Supervisory Board Charter. Aegon Nederland has an up-to-date profile of the Supervisory Board, further specifying and recording its vision on its membership. This profile is tailored to Aegon Nederland's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards.

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

Furthermore, a Supervisory Board profile is available and if a vacancy arises, an individual profile is to be created. In addition to Aegon Nederland performing annual checks of individual critical abilities against the

[2] Aegon Hypotheken does not have its own Supervisory Board. However, a Supervisory Board is established on the level of its parent company Aegon Nederland. In this Report, where reference is made to the Supervisory Board, the Supervisory Board of Aegon Nederland is meant.

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

Experience has shown that all members of the Supervisory Board are sufficiently available and accessible to perform their duties properly. The members of the Supervisory Board receive suitable compensation that is independent of Aegon Nederland's financial results. Compensation is set by the General Meeting of Shareholders.

Aegon Nederland has a permanent education program for members of the Supervisory Board. The program covers national and international developments in the financial sector as well as corporate governance in general and in the financial sector in particular. The program further includes topics such as the duty of care towards customers and putting customers' interests first, integrity, risk management, financial reporting and audit. In 2020, a self-evaluation session was facilitated by an external party. The results were satisfactory and will be discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken.

Duties and working methods
The Supervisory Board's discussions on risk management decisions are prepared by the Risk and Audit Committee. The members of the Risk and Audit Committee have adequate knowledge, experience and/or competences to allow for sound supervision of the financial aspects of risk management, financial reporting, internal control and audit.

<u>Board of Directors</u>

Membership and expertise
At Aegon Nederland, complementarity and diversity within the Board of Directors is ensured by the members' different backgrounds, personalities and range of knowledge and experience. Whereas the members of the Board of Directors have equal decision making authority, it aspires to take decisions by consensus as far as possible. The members of the Board of Directors have broad-based commercial background and experience in the financial sector in general and in insurance in particular. With this wide range of experience they have sufficient knowledge of the function of insurance companies in society and are aware of the interests of stakeholders. Each member of the Board of Directors also has the necessary knowledge to be able to assess and determine the main points of Aegon Nederland's overall policy and to form a balanced and independent opinion on the risks that Aegon Nederland faces.

The knowledge of the members of the Board of Directors is kept up to standard and is improved by means of Aegon Nederland's permanent education program, which is organized by the Secretary of the Board, together with the HR Learning & Development department. The latter is also responsible for keeping records on participation.

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

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

The CFO is fully responsible for the financial and capital management of Aegon Nederland. The CFO leads the financial function in the statutory board of Aegon Nederland in the broadest sense, to ensure the financial position of Aegon Nederland is known at all times, the management is in control and regulators and other stakeholders receive sufficient reports to form a judgment about the state of Aegon Nederland in time. The function is responsible for the financial policies of Aegon Nederland. Amongst others the departments of Financial Information Management (Accounting, Reporting, Actuarial & Solvency II) and Balance Sheet Management report to the CFO. The CFO has no individual commercial responsibility and operates independently of other commercial areas.

Duties and working methods
In its decision making, Aegon Nederland's Board of Directors carefully considers the interests of all parties concerned, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Nederland Code of Conduct. Putting customers and their interests first is at the heart of our vision, strategy and day-to-day activities. It is an integral part of our thinking and runs through all operations at every level of the company. This means that employees with customer contacts are closely involved with the theme. There are special training programs on the theme and it is part of our recruitment policy.

In Aegon Nederland's vision, the company holds responsibility for people's financial awareness and development. Aegon Nederland strives to offer easily-understood solutions in genuine dialogue in order to enable customers to make conscious decisions about their financial future. Aegon Nederland wants to present matters as they are. We believe it is our responsibility to assist customers and explain things in a simple way.

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

The members of the Board of Directors act in a careful, expert and fair manner. They keep up to date with developments in legislation and regulations, partly through the permanent education program. All members of the Board of Directors took the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations. Integrity, care and putting customers' interests first are guiding principles for all Aegon Nederland employees, which is reflected are the Aegon Nederland Code of Conduct and applies to all Aegon Nederland employees.

The Aegon Nederland Code of Conduct is embedded in the Aegon culture, by e.g. inclusion in employment contracts (since 2012), providing e-learning modules to new recruits and annual e-learning modules for all employees. In addition all employees are annually required to confirm compliance to the code of conduct.

4. Responsible business

We are always thinking one step ahead: for our customers, for society, and for the world. What we as a company do today is every bit as relevant and important as it was 175 years ago. Taking responsibility for our actions is at the heart of our approach to responsible business. As is understanding the impact that our business has on the lives of our customers, our society, and the world. We want to help create a vibrant and healthy society that enriches the lives of everyone, not just the few, and one where thinking about the future is every bit as important as thinking about the present. To achieve this, we are committed to helping tackle the many challenges facing our society, such as ending poverty, combating climate change, and consuming our planet´s limited resources in a responsible way. That is why we focus our responsible business efforts on five main themes:

1. We invest responsibly: We invest for a better world by investing responsibly, and by using our influence as a large investor to encourage the companies in which we invest to make positive changes to their business for the benefit of society and the planet.
2. We improve society: We believe everyone deserves a long and happy life. Unfortunately, many people are denied this due to ill-health or inadequate finances. We aim to make a difference by supporting initiatives that improve people´s health and well-being and helping to raise awareness and knowledge on financial matters in society at large.
3. We transform lives: We help our customers secure a healthy financial future. We do this by helping them understand the consequences of their financial decisions and supporting them each step of the way by providing the products and services they need.
4. We care about our people: We believe happy and healthy employees are better able to help us help our customers. We aim to make our company an inclusive workplace where people are valued for the diverse knowledge, insights and experience that they contribute.
5. We care for the environment: We believe it is important to live in a clean and healthy environment. The main way we contribute to achieving this is by helping to reduce CO_2 emissions and by facilitating the transition towards a low-carbon economy.

In 2020 Aegon Nederland published a Responsible Business Report, over 2019, for the first time. From this point onwards our Responsible Business Progress will be reported in this separate report.

We invest responsibly
Managing around EUR 100 billion of investments on behalf of our customers and for our own account, Aegon Nederland is one of the largest financial institutions in the country. We aim to generate strong financial returns on these investments so that we can, for example, provide our customers with the pensions they need in retirement. We recognize that our responsibility extends far beyond achieving strong financial returns alone, and that we must take action to ensure that our investments do not have a negative impact on society and the planet. At the start of 2020 we revised our Responsible Investing Policy. This policy explains what responsible investing means to us, how we expect the companies in which we invest to behave, and how we believe we can use our investments to make a difference.

As a long-term investor in a wide range of companies, sectors and countries, we take our responsibilities as an asset owner and steward of client assets seriously. This means careful and responsible management of the assets under our care. It also means taking into account, and taking responsibility for, the impact that these assets can have on the lives of people living today and in the future. We believe in being an active owner of our investments and working together with other like-minded parties to address complex environmental, social and governance (ESG) issues. Our responsible investing approach is built on four pillars:

- Screening: We believe all our investments should meet minimum behavioral, environmental and ethical standards. Many of these are laid down in Dutch law and the Dutch corporate governance code. Others are derived from guidelines issued by multi-national organizations, such as the United Nations, or industry best practice. We screen all our investments against these criteria to identify those that do not meet our minimum standards or are incompatible with our views and values. This helps us avoid causing harm with our investments.
- Engagement & voting: We believe in being active owners of our investments which means we are using our influence as a large investor to effect positive change in the world. We do this by starting a dialogue with companies in which we identify ESG risks which provides us with an opportunity to highlight these ESG risks, inform company management of our concerns, and advocate the changes we believe they should make to their business. We also exercise any shareholder voting rights we have to support our engagement efforts and enhance long-term value creation for all stakeholders.
- Exclusion: There are instances when companies that we have identified as not meeting our minimum standards are either unwilling or unable to change. On these occasions, we choose not to invest in

them, and take action to exclude them from our investible universe. Examples include companies manufacturing tobacco, producing palm oil, and those still investing in coal-fired power generation.
- Reporting: We want to be transparent on our responsible investing activities and make a wide range of reports available to the public.

We are proud that, following the introduction of our revised Responsible Investing policy in 2020, all our investments are now responsibly managed by default and must meet minimum ESG standards as set out in the policy. We recognize, nonetheless, that we can, and should, do more than merely seeking to avoid investing in companies that may cause harm by failing to meet our minimum standards. We are committed to using our investments as a vehicle for change and investing in a way that has a positive impact on the world.

We improve society
We believe everyone deserves a long and happy life. Unfortunately, many people are denied this due to ill-health or inadequate finances. We aim to make a difference by supporting initiatives that improve people´s health and well-being and helping to raise awareness and knowledge on financial matters in society at large. We see firsthand the impact that dementia can have on people´s quality of life and how it can impact individuals´ ability to make the informed decisions they need to ensure a healthy financial future. That´s why we have made fighting dementia and its underlying causes, for example Alzheimer´s disease, the focus areas of our work. Since 2002, we have been the lead sponsor of the Alzheimercenter in Amsterdam, one of Europe's leading diagnosis and treatment centers for dementia. With our support, the Alzheimercenter is better able to focus on achieving its mission: making dementia treatable and ultimately curable, as well as ensuring its effects are openly discussed and more widely understood. In addition, we invest in the Dementia Discovery Fund, the world's largest venture capital fund devoted to a single disease area. With our investment, we provide funding to biotech companies across the world that are researching and developing novel disease modifying therapeutics for all forms of dementia.

Our purpose is to help people achieve a lifetime of financial security. However, with around 1.4 million households in the Netherlands currently dealing with serious financial troubles, becoming financially secure can seem far more like a dream than a reality for all too many people. It is for this reason that in 2016 we joined the 'Van Schulden Naar Kansen' (From Debts to Opportunities) program of the Van Schulden naar Kansen Foundation. This program focuses on dealing with poverty as a result of problematic debts. Together with our program partners, we help tackle this form of poverty and get people back on to the path of becoming financially fit. Our ambition is to help a total of 6,000 families between 2016 and 2020 understand the steps needed to get out of debt and improve their financial situation. To achieve this, we partner with local organizations in three of the cities in which we have offices in the Netherlands: The Hague, Leeuwarden, and Groningen. We support these organizations by providing them with financial support and sharing our knowledge. More than 350 of our colleagues have to date volunteered at one of our partner organizations. With our support, more than 4,000 families have been helped on their way to a healthier financial future by learning the skills and knowledge required to free themselves from problematic debts. As a company, we recognize the importance of volunteering. Not only because it allows us to give something back to the local community, but also because it helps us demonstrate to others what we stand for and the issues that matter to us.

We transform lives
We want to help our customers secure a healthy financial future. In order to achieve this, our customers must not only carefully plan and make informed decisions about their future, they must also use the right products and services for their own personal circumstances. We understand that not everyone has the necessary skills or knowledge to make informed decisions – for example assessing how much debt can be safely afforded, or which financial product is best for them. As one of the largest financial organizations in the Netherlands, we are able to help individuals better understand their financial situation and the decisions they need to make. We also offer our customers a wide range of financial products and services to help with their specific financial needs. We believe each and every product and service we offer should be fit for purpose, and we encourage our customers to make well informed financial decisions. As a mortgage lender, for instance, we have strict policies in place to ensure we never lend a larger mortgage than a customer can safely afford. We also recognize our responsibility to communicate any risks and expectations that are associated with these products and services in a clear and transparent way.

We believe helping people to achieve a lifetime of financial security is about more than simply providing our customers with the products and services they need. It is also about helping them to understand both how these products and services work, and the consequences of any decisions associated with them. Much time and effort is spent across our company to achieve this. Pensions are a good example. Many of our customers have taken an important step towards financial security by saving for their retirement using one of our pension products. A considerable number of people are, however, automatically enrolled in pension products by their employers and have little or no knowledge about how these products work, or the consequences of any decisions they need to make. One way Aegon employees have been helping to address this is by volunteering during the Pensioen3daagse. For the past eight years, our employees have been helping individuals living near our head office in The Hague to better understand how their pensions work. Via one-on-one conversations, our employees have helped these individuals improve their understanding of the Dutch pension system and the consequences of decisions they need to take before retiring. We believe children can also benefit from this knowledge to learn good financial habits early in life. During Week van het Geld (Money Week) Aegon employees volunteer to give lessons at local schools as part of a program to help fight financial illiteracy.

As our society begins to recognize and deal with the consequences of climate change, people are learning that the homes we live in are not just part of the problem; they can also be part of the solution. As one of the largest mortgage lenders in the Netherlands, we have started to provide our customers with a way to finance the improvements necessary to make their homes more energy efficient and sustainable and to help them to reduce their CO_2 footprint and contribute to the Netherlands' efforts in combating climate change. We offer existing customers up to EUR 9,000 on top of their existing mortgage to fund energy-saving measures, such as a new boiler or installing solar panels, via our Sustainable Depot. For new customers, we offer a number of financing options that can help make their home more sustainable. These include the option to co-finance the increase in value of their home following energy-saving improvements, and to borrow up to EUR 25,000 extra to make their home energy neutral.

We care about our people
Our people are our greatest asset. As a company, we see it as our responsibility to do all we can to provide our employees with all the tools they need to succeed. This includes creating an environment in which they are in the driving seat for their own career and are encouraged to get the most out of their talents. We recently introduced a new performance management process – Perform & Develop - that has a stronger focus on the future, and the respective directions employees would like to take in their careers. More attention is therefore paid today to personal development and helping our employees to develop the skills and knowledge needed to match their future career ambitions. We help our employees achieve their ambitions by providing the training and support they need to succeed. In addition to providing regular training that ensures our employees are fully equipped to help our customers and their needs, all employees are provided with an annual training budget that can be used for on training courses, coaching or mentoring tailored to their individual requirements. Many of our employees use this to achieve industry-recognized professional qualifications or – for those who have moved to the Netherlands – to learn Dutch and help them to integrate into society. Our customers are incredibly diverse, from their age and family situation, to their wealth and background. To truly understand their needs, it is important that we have an equally diverse workforce. In addition, having multiple and diverse perspectives is critical for innovation and being able to make the best decisions for our clients, which in turn makes our work more impactful, enjoyable and rewarding.

Our approach to inclusion and diversity aims to create an environment in which everyone is comfortable to be their authentic self at work. We are an employer of choice and motivate and stimulate our employees to realize their individual ambitions alongside Aegon's purpose. Furthermore, we are committed to welcoming and promoting a wide variety of talent. We have a zero-tolerance policy towards discrimination of any kind – our views about which are outlined in our company Statement on Inclusion and Diversity. We believe that every Aegon employee plays an important role when it comes to contributing to a more inclusive work environment. This includes reducing unconscious behavioral biases in our company. From 2020 onwards, we will be implementing training programs to achieve this. We are proud to have been recognized as a Global Benchmark Ambassador of Workplace Pride, the nonprofit organization dedicated to supporting Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI) people in their workplace. This title was awarded in recognition of our leadership in contributing to LGBTI inclusion in the workplace. In 2019, we received a score of 70.5% for inclusivity, covering areas such as Policy & Communication, Employee Networks, Workplace Awareness and Inclusion & Engagement. This score is well above the average for multinational financial services groups. At the end of the year we also started the Allyship program. This promotes both recognizing how and why people are treated differently based on different facets of identity and standing in solidarity with them.

We believe everyone should be rewarded fairly for the work they undertake. This means paying people based on what they contribute to our success, and not on what they look like or where they come from. For this reason, in 2018 we were the first ever company in the Netherlands to agree a collective labor agreement that stipulated that men and women must be paid equally for equal work. In 2019 we followed up with a study on any gender pay disparity between employees. We were pleased to see that there is no divergence in pay within Aegon Nederland, after having taken age, work experience and length of service into account. This clearly differentiates Aegon from the marketplace norm in the Netherlands. In recognition of our employment values and development opportunities, Aegon Nederland was awarded the prestigious 'Keurmerk Talent Ontwikkeling' (Talent Development Quality Mark) in both 2018 and 2019.

We care for the environment

We believe a clean and healthy environment is an important requirement to be able to grow old healthily and enjoy a long and happy retirement. Our planet and the environment are, however, facing many risks right now, including climate change, biodiversity depletion and pollution. Climate change represents one of the greatest risks facing our society. For this reason, helping to tackle climate change and enabling the transition to a low carbon society are at the core of our environmental approach. At Aegon, the main ways we contribute to achieving this are by helping to reduce CO_2 emissions and by facilitating the transition towards a low-carbon economy. Ensuring a healthy living environment is, of course, about far more than tackling climate change alone. If we wish to ensure a healthy future for all, we must also reduce our ecological footprint. This means helping to restore the balance between our consumption of the earth's resources and its ability to regenerate them. For example, by making more efficient use of raw materials and reducing waste.

We are taking action to make our business more sustainable. To this end, we have developed an environmental approach that will help guide us in playing our part to tackle climate change, and to make better use of the resources that we consume:

- Halving our CO_2 emissions: We aim to achieve this by improving the energy efficiency of our buildings, making greater use of technology to reduce business travel, and providing our employees with more sustainable commuting options.
- Helping our customers cut their CO_2 emissions: We are currently helping them do this by providing a way to finance energy-saving measures for their home.
- Digitalizing our business: We are changing how we communicate with our customers and suppliers, making more frequent and better use of digital communication. This means less paper and consuming fewer resources.
- Making our waste more circular: We are always looking for new ways to reduce the amount of waste we generate, for example by introducing waste bins that allows for waste to be source separated and recycled.
- Using our investments as a catalyst for change: We want to use our influence as a large, long-term investor to encourage the companies in which we invest to reduce their CO_2 emissions, accelerate the transition to a low-carbon economy, and make their businesses more sustainable.
- Investing sustainably: We invest in a wide range of different investments that are helping to tackle climate change, improve energy efficiency and reduce waste.

We believe it is important to measure our impact on the environment so that we can take positive steps to reduce it. In line with our obligations under the Dutch National Climate Agreement and Spitsbergen Ambition, we are focusing our efforts on measuring and reducing the greenhouse gas emissions (and CO_2 emissions in particular) that are associated with our business activities. We hope in future to be able to extend our work in this area and consider other elements of our ecological footprint, such as timber usage as a result of using paper.

We have made significant progress over the last year in terms of measuring CO_2 emissions directly associated with our own operations, in addition to those with which we are indirectly associated by virtue of our investment choices. The following provides an overview of these emissions, categorized by Scope depending on the activities with which they are associated.

Financial services firms such as Aegon hold significant investments. We believe it is important to measure and disclose the emissions that are indirectly associated with these investments. This is because we benefit from the activities with which they are associated, even though we cannot directly control them. Consider, for example, the case of investing in a car manufacturer. The success of such a company is ultimately determined by how many vehicles it can produce and sell to consumers. Greenhouse gas emissions associated with construction plants to produce vehicles are not our own emissions, and we are therefore unable to take direct action to control and reduce them. By providing companies with capital to fund their operations, we do, however, indirectly benefit from the greenhouse gas emissions generated. By measuring the greenhouse gas emissions associated with our investments, we hope to provide insights on the environmental impact of the different companies, projects and activities we help to finance. These are categorized under Scope 3 in the Greenhouse Gas Protocol. When measuring CO_2 emissions associated with our investments, we have made use of the Partnership for Carbon Accounting Financials (PCAF) and Task force for Climate-related Financial Disclosure (TCFD) recommendations.

Despite the progress made in recent years, we are not yet able to measure the CO_2 emissions associated with all our investments. We hope to increase the proportion of investments measured for associated CO_2 emissions in the coming years, as both industry-recognized measurement standards and our own capabilities develop. Where possible, we will also re-measure and re-state historic figures to provide a more accurate comparison of changes in CO_2 emissions from one period to another.

In 2019, we set ourselves the target of halving the ecological footprint of our operations by 2030. This includes reducing our per-employee operational CO_2 emissions by at least 50% by 2030. We are currently examining the different ways in which we can achieve this. We are also looking at the greenhouse gas emissions associated with our investments and exploring ways in which we can reduce them. We are confident that we will be able to provide an update on our efforts in our next Responsible Business Report.

5. Outlook

5.1. Developments

The continued recovery of the Dutch housing market impacted the mortgage market. Demand for mortgage products is expected to remain high. Disintermediation and new forms of advice on financial products and services are expected to develop and change further in 2021, driving the shift towards cross-channel solutions.

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

Finally, economic conditions and the situation in the financial markets are driving an increased focus on cost efficiency. All these trends combined require Aegon Hypotheken to deliver enhanced performance for all our stakeholders at reduced expense levels. Aegon Hypotheken is confident to maintain a position of a large player on the market and to benefit from positive developments.

Aegon Hypotheken continuously evaluates its client service and is involved in industry initiatives to enhance client orientation and optimizing the distribution channel. Aegon Hypotheken's activities are mainly directed at digitalizing its client service.

5.2. Events after balance sheet date and expectations

In March 2021 EUR 13 million dividend was paid to Aegon Nederland.

On April 8, 2021, Aegon Hypotheken closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). ‘Saecure 20’ consists of EUR 657 million of class A notes with an expected weighted average life of 4.98 years and a coupon of 3 month Euribor plus 70 bps. The transaction is priced at a discount margin of 14 bps, hence the transaction was issued above par.

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

The Hague, April 8, 2021

The Board of Directors,

M.J. Edixhoven (chair)	
B. Magid	
W.A. Hekstra	
A. Schlichting	
W. Horstmann	

Consolidated financial statements 2020 of Aegon Hypotheken B.V.

Consolidated statement of financial position

	Note	31-12-2020	31-12-2019
Amounts in EUR thousand			
Assets			
Cash and cash equivalents	5	83.734	120.565
Loans	6	2.513.876	3.194.579
Group loans	7	363.089	459.183
Derivatives	8	14.554	299.602
Deferred tax assets	12	30.065	6.514
Other assets and receivables	9	1.235.118	912.104
Total assets		**4.240.436**	**4.992.547**
Equity and liabilities			
Equity	10	182.712	191.331
Equity		**182.712**	**191.331**
Borrowings and group borrowings	11	3.647.112	3.980.797
Derivatives	8	310.301	614.526
Other liabilities and accruals	13	100.311	205.893
Total liabilities		**4.057.724**	**4.801.216**
Total equity and liabilities		**4.240.436**	**4.992.547**

Consolidated income statement

(for the year ended December 31, 2020)

Amounts in EUR thousand	Note	2020	2019
Income			
Interest income calculated using the effective interest method	14	77.966	96.491
Interest expense calculated using the effective interest method	19	-12.381	-13.087
Other interest expense	19	-36.092	-52.487
Net interest income		**29.494**	**30.916**
Fee and commission income	15	100.152	89.174
Results from financial transactions	16	23.908	16.681
Impairment losses / (reversals)	18	558	4
Total income		**152.996**	**136.767**
Expenses			
Commissions and expenses	17	105.070	109.943
Total operating expenses		**105.070**	**109.943**
Income / (loss) before tax		**47.926**	**26.824**
Income tax	20	-10.045	-6.377
Net income / (loss)		**37.881**	**20.447**
Net income / (loss) attributable to the parent company		**37.881**	**20.447**

Consolidated statement of comprehensive income

(for the year ended December 31, 2020)

Amounts in EUR thousand	2020	2019
Net income	**37.881**	**20.447**
Total comprehensive income	**37.881**	**20.447**
Total comprehensive income attributable to the parent company	**37.881**	**20.447**

Consolidated statement of changes in equity

(for the year ended December 31, 2020)

Amounts in EUR thousand

2020	Share capital	Share premium	Retained earnings	Total
At January 1	18	20.000	171.313	**191.331**
Net income / (loss) recognized in the income statement	-	-	37.881	**37.881**
Other comprehensive income / (loss)	-	-	-	**-**
Total comprehensive income / (loss)	**-**	**-**	**37.881**	**37.881**
Dividends paid on common shares	-	-	-46.500	**-46.500**
At December 31	**18**	**20.000**	**162.694**	**182.712**

2019	Share capital	Share premium	Retained earnings	Total
At January 1	**18**	**20.000**	**154.366**	**174.384**
Net income / (loss) recognized in the income statement	-	-	20.447	**20.447**
Other comprehensive income / (loss)	-	-	-	**-**
Total comprehensive income / (loss)	**-**	**-**	**20.447**	**20.447**
Dividends paid on common shares	-	-	-3.500	**-3.500**
At December 31	**18**	**20.000**	**171.313**	**191.331**

Consolidated cash flow statement

(for the year ended December 31, 2020)

Amounts in EUR thousand	Note	2020	2019
Income / (loss) before tax		**47.926**	**26.824**
Results from financial transactions	16	4.341	-16.321
Amortization and depreciation	17	16.245	25.486
Impairment losses / (reversals)	18	-558	4
Adjustments of non-cash items		**20.028**	**9.169**
Accrued expenses and other liabilities	13	-57.473	391.606
Accrued income and prepayments	7	-372.902	-500.700
Changes in accruals		**-430.375**	**-109.094**
Additions to mortgage loans	6	-294.887	-172.348
Purchase of derivatives	8	-71.385	-
Redemptions of mortgage loans	6	428.653	317.283
Net change in cash collateral		96.094	-127.364
Cash flow movements on operating items not reflected in income		**158.475**	**17.571**
Tax (paid) / received	20	-31.949	-10.034
Net cash flows from operating activities		**-235.895**	**-65.564**
Purchase of mortgage loans		-	-4.000
Sale of mortgage loans*		579.248	18.000
Net cash flows from investing activities		**579.248**	**14.000**
Repayment of borrowings and group loans	11	854.900	935.234
Proceeds from borrowings and group loans	11	- 1.188.585	-887.236
Dividends paid		-46.500	-3.500
Net cash flows from financing activities		**-380.185**	**44.498**
Net increase / (decrease) in cash and cash equivalents		**-36.831**	**-7.066**
Cash and cash equivalents at the beginning of the year	5	120.565	127.630
Cash and cash equivalents at the end of the year		**83.734**	**120.565**

* In 2020 Aegon Hypotheken sold mortgage portfolios to Aegon Bank and Aegon Levensverzekering. This sale was an incidental transaction due to overall ALM alignment within the Aegon Nederland group.

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

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

	2020	2019
Interest received (excluding derivatives)	72.377	92.766
Interest paid (excluding derivatives)	10.911	12.378
Interest derivatives received / (paid)	-45.773	-54.029

Reconciliation of liabilities arising from financing activities
Aegon Hypotheken paid dividend to Aegon Nederland in 2019 and 2020. For both 2020 and 2019 the other financing activities relate to the changes in long term borrowings and issued and repaid loans to group companies.

Notes to the consolidated financial statements

1. General information

Aegon Hypotheken incorporated and domiciled in the Netherlands, is a limited liability company organized with Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV The Hague, with registration number 52054454. Aegon Hypotheken is a wholly owned subsidiary of Aegon Nederland N.V. (or Aegon Nederland) in The Hague. Aegon Hypotheken's ultimate holding company is Aegon N.V. in The Hague.

Aegon Hypotheken offers and services mortgages to Dutch consumers. Aegon Hypotheken obtains the funding it needs to finance those loans from companies within the Aegon group (internal funding) and through financing agreements with professional parties outside the Aegon group (external funding). These financing arrangements include arrangements where Aegon Hypotheken offers institutional investors the ability to invest in Dutch mortgages granted by Aegon Hypotheken for the account and risk of these institutional investors.

2. Significant accounting policies

2.1. Basis of presentation

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

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2020 is provided below, in note 2.1.1 'Adoption of new IFRS-EU accounting standards and amendments effective in 2020'.

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

The preparation of financial statements in conformity with IFRS-EU requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, corporate income taxes and the potential effects of resolving litigation matters.

Aegon Hypotheken has elected to continue to apply hedge accounting requirements for macro fair value hedges of IAS 39 on adoption of IFRS 9. As such, fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS is applied. Details are provided in note 2.7 'Derivatives '.

Company financial statements

The company's financial statements of Aegon Hypotheken have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Dutch Civil Code. In accordance with article 362.8, Book 2, of the Dutch Civil Code, the Company's financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements of Aegon Nederland. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

With regard to the income statement of Aegon Hypotheken, article 402, Book 2 of the Dutch Civil Code has been applied, allowing a condensed format.

Going concern

The consolidated financial statements of Aegon Hypotheken have been set up assuming a going concern basis of accounting based on the reasonable assumption that Aegon Hypotheken is, and will be, able to continue its normal course of business in the foreseeable future. Relevant facts and circumstances (also considering COVID-19) relating to the consolidated financial position on December 31, 2020, were assessed in order to reach the going concern assumption. The main areas assessed are the financial performance, capital adequacy, financial position and flexibility, liquidity and solvency. Considering all these areas management concluded that the going concern assumption for Aegon Hypotheken is appropriate in preparing the consolidated financial statements.

2.1.1. Adoption of new IFRS-EU accounting standards and amendments effective in 2020

New standards and amendments to standards become effective at the date specified by IFRS-EU, but may allow companies to opt for an earlier adoption date. In 2020, the following standards and amendments to existing standards issued by the IASB became mandatory or were early adopted:

Accounting standard/ amendment/ interpretation	**IASB effective date**	**Endorsed by EU**	**Impact for the entity**
Definition of a Business (Amendments to IFRS 3)	January 1, 2020	Yes	Low
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020	Yes	Low
Amendments to the References to the Conceptual Framework in IFRS Standards	January 1, 2020	Yes	Low
Early adopted:			
Covid-19-Related Rent Concessions (Amendments to IFRS 16)	June 1, 2020	Yes	Low

None of these amendmends to existing standards are significantly impacting the financial position or consolidated financial statements.

2.1.2. Changes in presentation

There have been no changes in presentation.

2.1.3. Future adoption of new IFRS-EU accounting standards and amendments

The following standards and amendments to existing standards, published prior to January 1, 2021, were not early adopted by Aegon Hypotheken, but will be applied in future years:

Accounting standard/ amendment/ interpretation	**IASB effective date**	**Endorsed by EU**	**Early adopted by the entity**	**Impact for the entity**
IFRS 17 Insurance Contracts	January 1, 2023	Not yet	No	Not applicable
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts)	January 1, 2021	Yes	No	Not applicable
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 1, 2021	Yes	No	See below for comments
Reference to the Conceptual Framework (Amendments to IFRS 3)	January 1, 2022	Not yet	No	Low
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	January 1, 2022	Not yet	No	Low
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022	Not yet	No	Low
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022	Not yet	No	Low
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2023	Not yet	No	Low

<u>Interest rate benchmark reform</u>

In 2019, Aegon Hypotheken elected to early adopt the 'Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7). In accordance with the transition provisions, the Phase I amendments have been adopted retrospectively to hedging relationships that existed on January 1, 2019 or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements, thereby ensuring that uncertainty on the outcome of the Interest Rate Benchmark Reform (IBOR reform) does not result in early termination of hedge accounting, notably because the retrospective effectiveness may fall outside of the required range due to the IBOR reform.

Please refer to note 8 'Derivatives' for the required disclosures of the uncertainty arising from the IBOR reform for hedging relationships for which Aegon Hypotheken applied the reliefs.

In August 2020, the IASB issued the 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)', which address issues that might affect financial reporting during the IBOR reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The Phase 2 amendments have no impact for Aegon Hypotheken in 2020 because Aegon Hypotheken did not early adopt these amendments. Aegon Hypotheken continues to follow the status of the IBOR reform, and will assess the impact for Aegon Hypotheken when further information becomes available.

2.2. Basis of consolidation

2.2.1. Subsidiaries

The consolidated financial statements include the financial statements of Aegon Hypotheken and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Hypotheken has control. Aegon Hypotheken controls an entity when Aegon Hypotheken is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the substance of the relationship between Aegon Hypotheken and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the accounting principles of Aegon Hypotheken, which is consistent with IFRS-EU. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary's equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the share of Aegon Hypotheken in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence within 12 months after the acquisition date, are made against goodwill. Aegon Hypotheken recognized contingent considerations either as provision or as financial liability depending on the characteristics. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

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

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

2.2.2. Structured entities

A structured entity is defined as "An entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements."

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

2.3. Current versus non-current

For certain assets and liabilities, a split is made in the notes between current and non-current. An amount of an asset or liability is classified as current, when it is expected to be recovered or settled no more than twelve months after the reporting period, and as non-current, when it is expected to be recovered more than twelve months after the reporting period.

2.4. Foreign exchange translation

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

2.5. Offsetting of assets and liabilities

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

2.6. Financial assets and liabilities, excluding derivatives

2.6.1. Initial recognition and measurement

Financial assets and financial liabilities are recognised at trade-date when Aegon Hypotheken becomes a party to the contractual provisions of the instruments. All financial assets and liabilities are classified for accounting purposes depending on the characteristics and the purpose for which they were purchased.

At initial recognition, Aegon Hypotheken measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs for a financial asset or financial liability measured at FVPL are directly recorded in the income statement. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 4.3.1 'Expected credit loss measurement', which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, Aegon Hypotheken recognizes the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2.6.2. Financial assets

Under IFRS 9, Aegon Hypotheken classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVPL).

Amortised cost and effective interest rate

The amortised cost of a debt instrument is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) Purchased or originated credit impaired ('POCI') financial assets – assets that are credit impaired at original recognition, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

The classification requirements for debt are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, and trade receivables.

Classification and subsequent measurement of debt instruments depend on:
(i) Aegon Hypotheken's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.
Based on these factors, Aegon Hypotheken classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised (section 4.3.4.2). Interest income from these financial assets is included in 'Interest income calculated using the effective interest method' using the effective interest rate method.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Results from financial transactions'. Interest income from these financial assets is included in 'Interest income calculated using the effective interest method' using the effective interest rate method.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Results from financial transactions'. Interest income from these financial assets is included in 'Other interest income'.

Business model: the business model reflects how Aegon Hypotheken manages the assets in order to generate cash flows. That is, whether Aegon Hypotheken's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by Aegon Hypotheken in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, Aegon Hypotheken's business model for the mortgage loan book is to hold to collect contractual cash flows, with transfer of loans only taking place internally to a SPV for the purposes of collateralising notes issued, with no resulting derecognition due to risks and rewards being retained by Aegon Hypotheken.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, Aegon Hypotheken assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, Aegon Hypotheken considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Aegon Hypotheken reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Impairment of financial assets

Aegon Hypotheken assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. Aegon Hypotheken recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Modification of loans

Aegon Hypotheken sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, Aegon Hypotheken assesses whether or not the new terms are substantially different to the original terms. Aegon Hypotheken does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, Aegon Hypotheken derecognises the original financial asset and recognises a ‘new’ asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, Aegon Hypotheken also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and Aegon Hypotheken recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 4.3.7 ‘Modifications of financial assets’.

Derecognition other than on a modification

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

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

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

2.6.3. Financial liabilities

Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, Aegon Hypotheken recognises any expense incurred on the financial liability; and,
- Financial guarantee contracts and loan commitments.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between Aegon Hypotheken and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.7. Derivatives

2.7.1. Definition

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date. Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

2.7.2. Measurement

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

2.7.3. Hedge accounting

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

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the results of the hedged item. Aegon Hypotheken has elected to continue to apply the hedge accounting requirements of IAS 39 for macro fair value hedges (EU 'carve out') on adoption of IFRS 9. Aegon Hypotheken currently applies hedge accounting for fair value hedges.

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

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

Aegon Hypotheken holds a portfolio of long-term fixed rate mortgages and therefore is exposed to changes in fair value due to movements in market interest rates. Aegon Hypotheken manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Aegon Hypotheken. This hedging strategy is applied to the portion of exposure that is not naturally offset against matching positions held by Aegon Hypotheken. Changes in fair value of the long-term fixed rate mortgages arising from changes in interest rate are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

Aegon Hypotheken establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments, as Aegon Hypotheken hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedged item and the hedging instrument, as cash collateralised interest rate swaps are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the fixed rate mortgages;
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and
- counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

Aegon Hypotheken manages the interest rate risk arising from fixed rate mortgages by entering into interest rate swaps on a monthly basis. The exposure from this portfolio frequently changes due to new loans originated, contractual repayments and early prepayments made by customers in each period. As a result, Aegon Hypotheken adopts a dynamic hedging strategy (sometime referred to as a 'macro' or 'portfolio' hedge) to hedge the exposure profile by closing and entering into new swap agreements at each month-end. Aegon Hypotheken uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the mortgage portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest rate swaps alone.

2.8. Other assets and receivables

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

2.9. Cash and cash equivalents

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

2.10. Equity

Share capital is stated at par value. The share premium reserve, where applicable, relates to capital contributions which have occurred since incorporation without issuing new shares. Dividends and other distributions to holders of equity instruments are recognized directly in equity. A liability for dividends payable is not recognized until the dividends have been declared and approved.

2.11. Borrowings and group loans

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

2.12. Assets and liabilities relating to employee benefits

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

2.13. Tax assets and liabilities

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

2.13.1. Current tax assets and liabilities

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

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

2.13.2. Deferred tax assets and liabilities

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

Deferred tax assets and liabilities are reviewed at each reporting period and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. The carrying amount is not discounted and reflects the expectations of Aegon Hypotheken concerning the manner of recovery or settlement.

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

2.14. Other liabilities and accruals

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

2.15. Contingent assets and liabilities

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

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

2.16. Interest income

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

2.17. Fee and commission income

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

2.18. Results from financial transactions

Results from financial transactions include:

- Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.
- All changes in fair value of derivatives are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line.

2.19. Commission and expenses

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

2.20. Interest charges and related fees

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

2.21. Corporate income tax

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

2.22. Events after the reporting period

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

3. Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events.

Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives (including hedge accounting) (refer to paragraph 2.6 and 2.7), corporate income taxes (refer to paragraph 2.13) and the potential effects of resolving litigation matters (refer to paragraph 2.15).

Accounting policies that are critical to the financial statements presentation and that require complex estimates or significant judgment are described in this chapter.

3.1. Changes in estimates

The mortgage prepayment model has been redeveloped by estimating a time-dependent conditional prepayment rate (CPR) for each mortgage loan part based on a logistic regression instead of applying a fixed long-term average prepayment rate of 5.2% from year 2 onwards in the cash flow projection. For the savings mortgages specifically, Aegon Hypotheken values the liability side by using CPR parameters rather than lapse parameters. The revised model has an impact of -/- EUR 23 million on the net market values. As the mortgage loans of Aegon Hypotheken are valued at amortized cost, this only impacts the fair value disclosed. There is no impact on reported equityor earnings.

3.2. Determination of fair value and fair value hierarchy

The following is a description of Aegon Hypotheken's methods of determining fair value, and a quantification of its exposure to assets and liabilities measured at fair value.

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

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

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

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

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

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

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

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

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

The valuation techniques applied to financial instrument affected by IBOR reforms remain consistent with those of other market participants, and the uncertainty on the outcome of the reforms has not affected the classification of the instruments.

To operationalize the fair value hierarchy of Aegon Hypotheken, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modelled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment. In note 21 'Fair value of assets and liabilities' more information, both quantitative and qualitative is given.

3.3. Recognition of deferred tax assets

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

The measurement of corporate income tax receivable/payable depends among other things on the application of the tax rules. It can be unclear how a specific tax law provision applies to a certain transaction or event.

3.4. Uncertainty resulting from COVID-19

Over the course of 2020 the world has seen substantial disruption caused by COVID-19. Alongside related market volatility, there is general uncertainty on how the pandemic will play out and the continued economic impact it will have.

There were no significant impacts from COVID-19 on Level-III measurements as at 31 December 2020. Note 21 'Fair value of assets and liabilities' provides more information on the fair valuation methods and assumptions applied, as well as movements or transfers in fair value hierarchy. Currently, there is insufficient credible experience with which to update actuarial assumptions for COVID-19 specifically.

Impairment assessments were performed where deemed necessary, also as a result of the uncertainty in the market and the impact of COVID-19. The impact on portfolios of mortgage loans remain subdued due to stimulus reliefs that were passed. Throughout 2020 there were no significant contract modifications due to COVID-19, which would lead to the derecognition of the original asset or liability.

Given the inherent economic uncertainty, Aegon Hypotheken has updated the sensitivity analysis for the impact of changes in financial assumptions on its IFRS equity and net income included in note 4 'Risk Management'.

3.5. Measurement of the expected credit loss allowance

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses)..

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and,
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Detailed information about the judgements and estimates made by Aegon Hypotheken in the above areas is set out in note 4.3. 'Credit risk management' and more specific 4.3.1 'Expected credit loss measurement'.

4. Risk Management

4.1. Enterprise Risk Management

4.1.1. Introduction

The risk management of Aegon Hypotheken takes place at holding level by Aegon Nederland. This chapter provides an executive summary of Aegon Nederland's Enterprise Risk Management (ERM) framework. ERM supports Aegon Nederland's corporate strategy by enabling management to effectively deal with uncertainty and the associated risk return trade-offs, by ensuring a common system for measuring value and risk. ERM is a process which is designed and implemented to identify and to manage potential risk events that may affect Aegon Nederland. The aim is to manage risk aligned with Aegon Nederland's risk appetite and within risk tolerances and limits in order to provide reasonable assurance regarding the achievement of Aegon Nederland's objectives.

Note 4.2 provides additional information on specific risk management information for Aegon Hypotheken.

4.1.2. Risk Management structure and governance

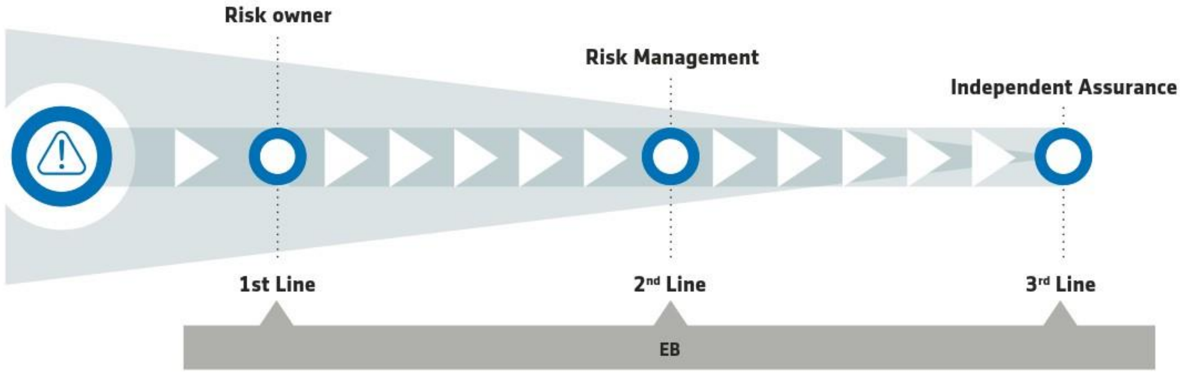
Risk committees

Aegon Nederland's risk governance framework is represented across all levels of the organization. This ensures a coherent and integrated approach to risk management throughout the company. Aegon Nederland's risk committee structure is characterized by a hierarchy based on four basic layers:

Supervisory Board	**Management Board (MT NL)**
The Supervisory Board is responsible for overseeing Aegon Nederland's ERM framework, including risk governance and measures taken to ensure risk management is integrated properly into Aegon Nederland's broader strategy. The Supervisory Board oversees Aegon Nederland's risk exposure as it relates to capital, earnings and market consistent value at risk and compliance with Aegon Nederland's risk policies.	Aegon Nederland's Management Board has an overall responsibility for risk management. The Management Board adopts the risk strategy, risk governance, risk tolerance and material changes in risk methodology and risk policies.
Risk and Audit Committee (RAC)	**Risk and Capital Committee (RCC)**
The Risk and Audit Committee (RAC) monitors, discusses, supports progress and decides on risks and issues, which are relevant for the proper management of strategic, operational and compliance risks. The focus of the RAC is primarily to those risks and issues that are outside the target zone of the predefined risk appetite in terms of financial losses, financial reporting misstatements, customer and reputation damage.	The purpose of the Risk and Capital Committee (RCC) is to manage financial risks, capital and the associated expected returns in order to maintain a strong capital position for Aegon Nederland.

Three lines of defense model

In order to ensure conscious risk-return decisions and limit the magnitude of potential losses within defined levels of certainty, Aegon's risk management structure has been established based on the principles of the "Three lines of defense" model.



Aegon Nederland's first line of defense, including the business and support functions, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerances and risk policies. The second line of defense – including the risk management function, compliance function and actuarial function – facilitates and oversees the effectiveness and integrity of ERM across Aegon. The third line of defense – the audit function – provides independent assurance opinion on the effectiveness of the internal control, risk management and governance systems.

Key function holders

Aegon Nederland has appointed a Compliance Function Holder (CFH), an Actuarial Function Holder (AFH), a Risk Management Function Holder (RFH) and an Internal Audit Function Holder in line with Solvency II regulation and additional guidance related to system of governance.

Compliance Function Holder (CFH)	**Actuarial Function Holder (AFH)**
The CFH is part of the Aegon Nederland's second line of defense. The CFH is required to ensure that Aegon Nederland complies with the applicable legal requirements, internal policies and procedures to accomplish Aegon Nederland's mission. This primarily concerns laws and regulations which arise from having a controlled and sound conduct of its business as laid down in WFT and Solvency II.	The AFH is part of the Aegon Nederland's second line of defense. It is the mission of the AFH to ensure proper and efficient pricing and valuation of policyholder liabilities and to embed actuarial considerations in key management decisions in order to ensure continuity of Aegon Nederland and to support the creation of sustainable value for all our stakeholders. The focus of the AFH is on the Solvency II framework and Solvency II Technical Provisions.
Risk Management Function Holder (RFH)	**Internal Audit Function Holder**
The RFH is part of the Aegon Nederland's second line of defense. The RFH is assisted by the departments Financial Risk Management (FRM), Operational Risk Management (ORM), Group Model Validation and Underwriting Risk Management (URM). FRM supports the RFH for Investment & Counterparty Risk and Mismatch Risk (asset liability management), including the use of risk mitigating techniques (hedging with derivatives). ORM supports the RFH on operational Risk (where the Compliance risks are in scope of the CFH). URM supports the RFH on activities related to the SCR related underwriting risk assessments. Group Model Validation supports the RFH with respect of assurance on the integrity of model in scope of the RFH and contributes to the transparency of model risks.	The Internal Audit Function Holder assists the Statutory directors of Aegon Nederland, the Risk and Audit Committee of the Supervisory Board and senior management in protecting Aegon Nederland's assets, reputation and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. Additionally, Internal Audit Nederland provides consulting services related to the evaluation and improvement of the management control environment of Aegon Nederland, including upon request by any relevant stakeholder, such as the Risk and Audit Committee or executive management. When providing assurance and consulting services, the Internal Audit Function Holder needs to maintain operational independence. The Internal Audit Function Holder is part of the third line of defense.

4.1.3. Enterprise risk management process

ERM building blocks

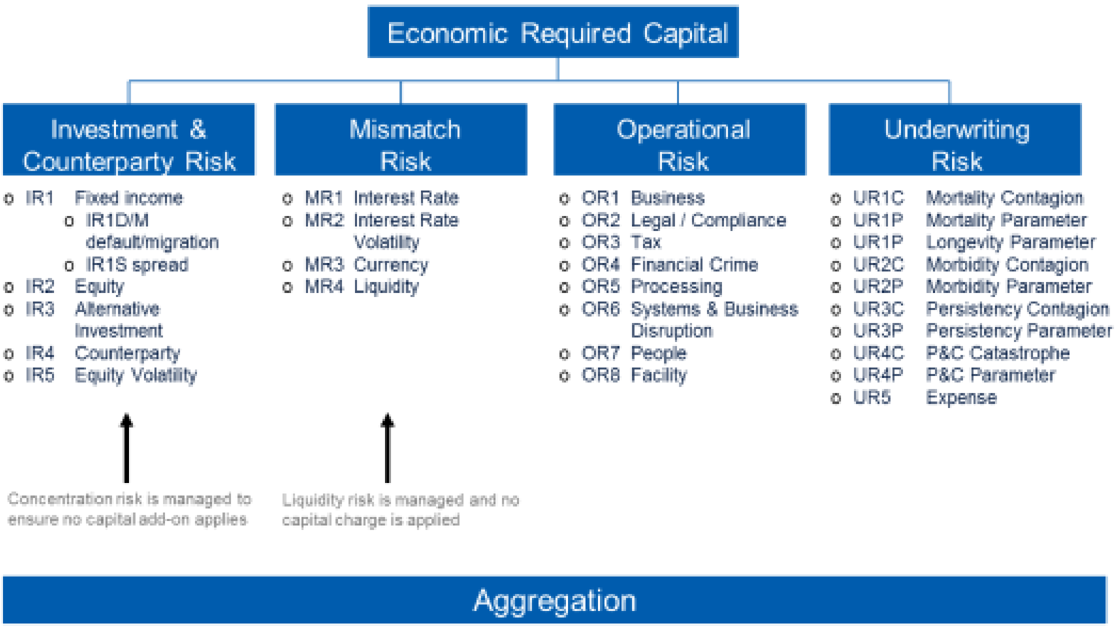
Aegon Nederland's enterprise risk management framework considers risk from various perspectives and can be decomposed into multiple components. However, enterprise risk management is not strictly a serial framework, where one component affects only the next. It is a multidirectional, iterative framework in which almost any component can and does influence another. The principles and requirements of ERM apply on all organizational levels and concern both financial and operational risks. Risks are managed from multiple perspectives, including culture, economic, regulatory and accounting. Relevant metrics in ERM include capital, earnings, liquidity and franchise value.

Risk Strategy	**Risk Tolerance**
The first building block in the enterprise risk management process is the formulation of an enterprise risk management strategy. The risk strategy forms the basis for the risk tolerance statements, which are specified in terms of financial strength, continuity, culture and risk balance and are translated into operating guidelines for the various risk types.	Risk Tolerance includes the risk appetite of Aegon Nederland including qualitative and quantitative risk tolerances that are the basis to support the business in making decisions about whether risks are within appetite, acceptable or need to be mitigated or avoided. Qualitative and quantitative tolerances are to be determined by management based on the values and principles of Aegon Nederland and should be in line with the company's purpose, values, objectives, Code of Conduct, and Market Conduct Principles.
Risk Identification	**Risk Assessment**
The risks that Aegon Nederland faces are identified and presented in the risk universe. An emerging risk process ensures that the risk universe will capture the full spectrum of risks. In order to assess the risks, Aegon Nederland has developed a methodology for measuring the risks as defined in the risk universe.	Aegon Nederland's approach to evaluating operational risks is based on the quantitative and qualitative rating of those risks with regard to their potential impact and likelihood after consideration of the effectiveness of controls. Risk impact is assessed along the following four impact dimensions: financial loss, customer, reputation and financial misstatement. The resulting ratings reflect the uncontrolled (residual) risk the business area is running.
Risk Response	**Risk Reporting (& Monitoring)**
Once the risks have been identified, evaluated and prioritized, an appropriate risk response needs to be defined. Action plans are developed and managed if Aegon Nederland's risk tolerances are violated.	Compliance with the risk tolerance statements and the risk policy requirements is monitored and reported on a periodic basis to operational management. Through a formal Risk and Audit Committee senior management is informed on their forward looking risk profile on a quarterly basis, together with details of action plans that address key risks. In the quarterly report the CRO's opinion on, among others, the effectiveness of those plans is formalized.

Aegon Nederland controls the risk it faces along various dimensions through its risk governance framework, risk monitoring, model validation, and embedding of risk management into functional areas, such as business planning, capital planning and management, remuneration, pricing and product development. The execution of these building blocks is a continuous and iterative undertaking, including periodic or ad hoc adjustment of the strategy and risk tolerance based on new risk information or changes in the business (environment). The full enterprise risk management methodology is formalized in the ERM Manual, ERM policy and underlying detailed policies and manuals.

Risk universe

Aegon Nederland's risk universe captures all material risks that the company is exposed to. The emerging risk process ensures that the risk universe will remain up to date. An overview of Aegon Nederland's risk universe is provided below:



A detailed description of the relevant risk categories is provided in note 4.2 'Risk Management approach'. Risks specifically related to the insurance activities of Aegon Nederland are not relevant for Aegon Hypotheken and therefore not included in this description.

4.2. Risk Management approach

Category	Risk description	Measures taken
Operational risks	Aegon Nederland faces operational risks resulting from operational failures or external events, such as processing errors, acts from personnel, and natural or man-made disasters. The risks in internal processes include the risk of fraud and reporting incidents.	Aegon Nederland analyzes operational risks on a continuous basis and regularly develops contingency plans to deal with them. Through Risk and Control Self Assessments, all processes are analyzed periodically and recalibrated in order to bring risks within the thresholds of our risk appetite. In case of risk events, a Root Cause Analysis is performed in order to investigate whether a control was missing or if a particular control failed. Action plans are put in place to improve organizational control and these are continuously monitored by the Operational Risk Management department.
Strategic risks	Strategic risks for Aegon Nederland include longevity, default, financial crime, liquidity, compliance, processing, reporting, modelling, outsourcing and information security risks.	Aegon Nederland's strategic risks are identified in strong collaboration between the Management Team of Aegon Nederland and the Risk Management & Compliance department. All of these risks are monitored periodically. The underlying action plans are challenged on their rigor and depth in order to address the risks at hand and reduce the residual risks to an acceptable level. Aegon Nederland increasingly makes use of new technologies that create new opportunities in the way products and services are provided to the customers. At the same time, Aegon Nederland is improving its administration services by outsourcing part of her administration to more specialized parties.

Category	Risk description	Measures taken
Regulatory and compliance risks	Aegon Nederland aims to embed compliance with laws, regulations, business principles, rules of conduct, customer agreements and established good business practices in every aspect of the organization. Among the regulatory risks Aegon Nederland considers are also the risk related to the litigation portfolio and product-related issues. Changes in current legislation and regulation of insurance and banking products may affect Aegon Nederland's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Nederland's ability to sell new products or its claims' exposure on existing ones. Additionally, new or amended legislation or regulations may be more restrictive or result in higher costs than lead to higher costs than is currently the case.	Aegon Nederland promotes integrity by establishing and maintaining effective compliance risk management and control systems. Aegon Nederland has a process in place to ensure that it flags and defines the impact of new laws and regulations and implements them in a timely manner. To best safeguard customers' interests, Aegon Nederland does not simply put any proposition on the market. Every new and updated proposition follows a proposition-approval process. In this process, the risks are carefully balanced and tested against the duty of care towards the customer, financial sustainability and suitability with Aegon Nederland's vision, strategy and objective. In addition to the proposition approval process, Aegon Nederland uses a propositions review process for existing propositions. Existing propositions, selected through the use of pre-defined risk indicators, also go through this process to best safeguard customers' interests.
Reporting risk	Aegon N.V. is subjected to Sarbanes Oxley (SOx) law and Solvency II regulation, and as a significant entity also Aegon Nederland is compelled to comply with specific stringent regulation.	Aegon Nederland tests the design, existence and operating effectiveness of key controls on an annual basis to ensure that material misstatements in the financial figures can be prevented or detected in a timely manner. Procedures ensure that operational risk management is able to conclude and provide reasonable assurance of the internal controls over financial reporting.
Modelling risk	Modelling risk includes flawed and/or insufficiently documented methods used in model design, or incorrect model coding or calculations caused by change management failure, flawed or insufficient model development and testing procedures.	An Aegon Nederland model validation framework is operated to ensure that the models remain appropriate to measure risk exposure and hence risk capital in the business. Risk measurement calibration is derived by the model owners and model owner testing. Model validation involves the assessment of each model across a range of validation tests and standards as set out in the framework. The large majority of all existing high risk models has been independently validated by the Group Model Validation team. In accordance with regular governance, findings from Group Model Validation are addressed by the model owners within agreed upon timelines. This is monitored by relevant Risk and Audit Committees. Model owners are performing a.o. review procedures on new models and the model inventory is periodically updated and independently reviewed by Group Model Validation. Furthermore, model risk management policy is followed. Underwriting Risk Management and Financial Risk Management review new and material models and assessing model changes in a risk based manner. Finally, regular governance (Assumptions & Methodology Committee, Risk & Capital Committee and Model Change Board) is followed for approval of new models.

Category	Risk description	Measures taken
Outsourcing risk	Outsourcing risk includes discontinuity of outsourced services e.g. bankruptcy, disruption of services, or standards of service level agreements not being met.	Aegon Nederland manages outsourcing risks via dedicated service level managers, contract management, service level reports, site visits, assurance report reviews and periodic meetings.
Information security risk	Information security risk relates to confidentiality, integrity and availability of information. Access to data by unauthorized parties could lead to loss of competitive advantages or could lead to privacy related risks. Information risk includes unauthorized or erroneous changes to business data or applications (business process controls) leading to fraud, error or failing internal controls. It also includes the loss of data and systems, or unavailability, causing inability to meet business process needs.	Aegon Nederland protects and continually strengthens its existing security control environment and use preventive tooling to minimize impact and exposure to new and existing threats. Evaluations of security controls – including detection and response capabilities are frequently performed by both internal and external experts. Identified vulnerabilities are followed-up by risk based actions plans, which are reported, tracked and monitored by management. Aegon Nederland performed a security capability assessment to determine the maturity of current capabilities and desired future maturity of these capabilities to be able to manage current and future information security/cyber risks. The prioritized risks – based on maturity current capability and target maturity for the capability- provide the input for the 2019/2020 security roadmap. Focus will be on: ▪ Third Party Risk Management (Governance Domain) ▪ Metrics and Reporting (Governance Domain) ▪ Privileged Access Management (Identity Domain) ▪ Data Classification & Lifecycle Management (Data Protection)
Credit risk	Credit risk is a combination of Fixed Income risk and Counterparty risk. Fixed Income risk is the risk that the market value of fixed income investments will fluctuate because of changes in the financial condition of the obligor. This risk can result from changes in the rating category of the obligor, regular fluctuation of spreads associated with each credit rating over time, and potentially default. Counterparty risk is the risk that the value of positions taken by Aegon Nederland to change its risk-return profile (e.g., derivatives or reinsurance) will fluctuate because of a deteriorating financial condition of those counterparties.	Having a well-diversified investment portfolio means that Aegon Nederland can accept credit spread risk to earn a liquidity premium on assets that match liabilities. Aegon Nederland operates a Credit Name Limit Policy under which limits are placed on the aggregate exposure that it has to any one counterparty. Refer to section 4.3 Credit risk management for more information on how the counter party default risk is managed.
Equity market risk and other investment risks	Aegon Nederland runs the risk that the market value of its investments changes. Investment risk affects Aegon Nederland direct investments in the general account, indirect investments on the account of clients and agreements where Aegon Nederland relies on counterparties, such as reinsurance and derivative counterparties.	Aegon Nederland has a low preference for investments in equity securities via the general account. Equity investments generate an equity risk premium over the long run, but in combination with a high capital charge result in a relatively low return on capital. Aegon Nederland has experience and expertise in managing complex investment guarantees and leverages this capability by providing customers access to a range of investment strategies and guaranteed benefits.

Category	Risk description	Measures taken
Interest rate risk	Aegon Nederland is exposed to interest rates as both its assets are liabilities are sensitive to movements in the long and short term interest rates as well as to changes in the volatility of interest rates.	Aegon Nederland accepts interest rate risk in order to meet customer needs. However, as no spread is earned on this interest rate risk, Aegon Nederland prefers to hedge the risk to the extent possible.
Liquidity risk	Aegon Nederland needs to maintain sufficient liquidity to meet short term cash demands under normal conditions, but also in crisis situations.	Aegon Nederland has put a strong liquidity management strategy in place. Aegon Nederland considers extreme liquidity stress scenarios, including the possibility of prolonged 'frozen' capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date. In addition, Aegon Nederland has liquidity stress planning in place.
Derivatives risk	Aegon Nederland uses financial derivatives to hedge risks relating to investments for general account, loans, certain liabilities and part of its solvency capital and asset liability management strategy. Not all risks to which Aegon Nederland is exposed can be adequately managed using derivatives. In addition, a counterparty in a derivative contract may fail to meet its obligations towards Aegon Nederland. Either situation can have significant adverse consequences for Aegon Nederland's operations, operating results and financial position.	Interest rate derivatives are used to manage interest risk positions. These contracts are designated as economic hedges with respect to these risks. The main types of derivatives used are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures. Other derivatives are used to manage risks relating to equities and credit. The main types of derivatives used for this are equity swaps, options, futures and credit derivatives. Aegon Nederland operates a policy to monitor the use of derivatives. This policy sets out the control, authorization, implementation and monitoring requirements for using these instruments and also stipulates the necessary credit risk limiting actions using derivatives. In general, credit risk related to bilateral derivatives contracts is reduced by collateral requirements in the contract. Interest rate swaps are centrally cleared to minimize credit risk.
Legal proceedings	Aegon Nederland is involved in litigation as part of the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are being sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Moreover, certain groups encourage others to bring lawsuits in respect of certain products.	Aegon Nederland has established litigation policies to deal with claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Nederland will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

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

Default risk or credit risk is the risk that clients are not able to meet their mortgage obligations. The loss resulting from default is mitigated by collateral from residential real estate, saving deposits linked to the mortgage and guarantees such as NHG. The severity of credit risk therefore depends on the extent to which the collateral covers the outstanding loan. Because of the Aegon Hypotheken prudential loan offering policy and regulations that require redemptions for an increasing part of the portfolio, losses from defaults have been, absolute and compared to peers, low. The probability of default is expected to remain at low levels, although economic downturns and/or shocks to housing prices will lead to an increase compared to the very low 2020 levels. Aegon Hypotheken remains strict in it lending policies to ensure that the credit risk continues to be low.

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

Aegon Hypotheken manages its liquidity position in ordinary course of business and taking into account extreme events, including significantly reduced liquidity in capital markets. Based on regular assessments made, Aegon Hypotheken liquidity position has been adequate during 2020.

Aegon Hypotheken has no exposure to exchange risk, limited exposure to inflation risk and no exposure to equity markets.

During 2020, Aegon Hypotheken has developed a more balanced financial risk profile, with profitability being supported by both (fee) margin on servicing activities as well as (interest) margin on the on balance portfolio. Key drivers of the financial risk profile are size of the serviced portfolio and interest margin on the on balance portfolio. During 2020, we have seen higher levels of prepayments leading to higher levels of new origination, thus still leading to serviced portfolio growth. Higher levels of prepayments might lead to lower interest margins on the on balance portfolio in case Aegon Hypotheken decides to replace prepayed loans with newly originated loans. As such, Aegon Hypotheken is positioned to adequately manage its overall profitability and financial risk exposure.

4.2.2. Hedging

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

4.2.3. Funding risk

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

To meet its liquidity and solvency requirements in an effective manner Aegon Hypotheken has a funding structure that consists of a combination of long term secured and unsecured loans from Aegon Levensverzekering and a committed revolving credit facility from Aegon N.V. This funding structure leads to a sustainable long term business model for Aegon Hypotheken with more robust funding sources.

The long-term maturity of the mortgages requires a funding profile that matches this maturity. Aegon Hypotheken therefore entered into longer term loans as part of the Saecure program. These loans have an expected maturity derived from the FORD which stands for the First Optional Redemption Date. At this date Aegon Hypotheken has the first right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity.

Further funding is available from the undrawn part of the current facilities as per December 31, 2020, which are EUR 0.4 billion (2019: EUR 1.2 billion) from external (warehouse) facilities and EUR 0.1 billion (2019: EUR 0.3 billion) from the liquidity line of Aegon N.V. These facilities provide room for short-term liquidity needs.

4.2.4. IFRS Sensitivities

Results of Aegon Hypotheken's sensitivity analysis are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each significant market risk, the analysis shows how net income and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon

Hypotheken's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon Hypotheken's accounting policies[3]. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analysis provided below.

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

4.2.5. Interest rate risk

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

The following table shows interest rates at the end of each of the last five years.

	2020	2019	2018	2017	2016
3-month US Libor	0,24%	1,91%	2,81%	1,69%	1,00%
3-month Euribor	-0,55%	-0,38%	-0,31%	-0,33%	-0,32%
10-year US Treasury	0,91%	1,91%	2,68%	2,41%	2,44%
10-year Dutch government	-0,48%	-0,06%	0,38%	0,52%	0,35%

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

	2020		2019	
Parallel movement of yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	7.507	7.507	10.880	10.880
Shift down 100 basis points	-9.332	-9.332	-14.833	-14.833

The sensitivity of net income and shareholders' equity for parallel shifts in the yield curves has decreased compared to 2019. The impact of interest rate shocks on the linear derivatives portfolio is offset by the impact on the mortgages in hedge relation of Aegon Hypotheken. The net derivative position not included in hedge accounting relationship has remained stable compared to 2019.

The decrease compared to 2019 (less offset than in 2019) of the impact on the mortgages in hedge relation is in line with the decreased mortgage portfolio compared to 2019. Since loans are not, other than derivatives, being revalued under IFRS, there is no interest sensitivity. Note that sensitivities are calculated without taking into account any floors in coupons which apply to part of the financing transactions.

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

4.2.6. Credit rating

The ratings distribution of investments portfolio of Aegon Hypotheken is presented in the next table.

2020	Amortized cost	Fair value	Reinsurance assets	Total 2020
AAA	14.776	-	-	14.776
AA	43	14.554	-	14.597
A	-	-	-	-
BBB	-	-	-	-
BB	1	-	-	1
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	2.499.651	-	-	2.499.651
Total on balance credit exposure at December 31	**2.514.471**	**14.554**	**-**	**2.529.025**
Of which past due and/or impaired assets	14.099	-	-	14.099

2019	Amortized cost	Fair value	Reinsurance assets	Total 2019
AAA	17.000	-	-	17.000
AA	43	289.707	-	289.750
A	-	9.895	-	9.895
BBB	-	-	-	-
BB	1	-	-	1
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	3.177.515	-	-	3.177.515
Total on balance credit exposure at December 31	**3.194.560**	**299.602**	**-**	**3.494.162**
Of which past due and/or impaired assets	15.341	-	-	15.341

'Assets not rated' relate to derivatives (with positive value) at fair value and other financial assets at amortized cost (mainly mortgage loans).

4.2.7. Credit risk concentration

The tables below presents credit risk concentration information for the financial assets.

Credit risk concentration - mortgage loans	2020	2019
Apartment	219.610	293.283
Commercial	-	10.922
Residential	2.055.719	2.641.304
At December 31	**2.275.329**	**2.945.509**
Of which past due and/or impaired assets	14.022	15.175

The amount disclosed in the table above for the investments at amortized cost is excluding the adjustment relating to the fair value hedge accounting of EUR 224 million (2019: EUR 232 million). Refer to note 6 'Loans' for more information.

Fair value of the mortgage loan portfolio:	2020	2019
Fair value mortgage loans	2.586.434	3.358.057
Loan to value (approximately)	64,9%	64,7%
Part of portfolio government guaranteed	40,3%	49,1%
Delinquencies in portfolio (defined as 60 days in arrears)	0,2%	0,1%
Impairments / (reversals) during the year	558	4

4.2.8. Past due and impaired financial assets

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

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

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

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

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

	2020	2019
Mortgage loans	3.694	3.151
Other	77	83
At December 31	**3.772**	**3.234**
Interest received on impaired financial assets	**119**	**12**

4.2.9. Liquidity risk

Liquidity risk is inherent in much of Aegon Hypotheken's activity. Each asset and liability has its own liquidity characteristics. Most assets and liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement. However, most of the assets of Aegon Hypotheken are mortgage loans, which are not highly liquid. If Aegon Hypotheken requires more than the normal amount of cash at short notice, it may have difficulty selling these investments at attractive prices or in a timely manner.

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

Investments in less liquid assets, such as mortgage loans, may lead to an increase in expected income from the investment portfolio, but are more difficult to convert into cash if an unexpected payment has to be made. Internal liquidity tests are designed to quantify this risk and ensure that there is sufficient liquidity even under extreme conditions. The aim of the internal liquidity test is to compare the liquidity requirement against the amount available in a number of scenarios.

Management uses this information for insight into the liquidity position and may, if necessary, make adjustments.

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

Events that may have a sudden, adverse impact on available liquidity include the following:
- Large change in interest rates (300 bps upward shock and 100 bps downward);
- Large change in credit spreads (150 bps upward);
- Insolvency of a counterparty, credit facility or bank where current accounts are held.

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

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

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2020
Borrowings and group borrowings	-	1.301.447	1.915.665	430.000	-	3.647.112
Other financial liabilities	14.273	86.045	-	-	-	100.317
At December 31	**14.273**	**1.387.492**	**1.915.665**	**430.000**	**-**	**3.747.429**

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2019
Borrowings and group borrowings	-	1.879.862	1.364.156	736.779	-	3.980.797
Other financial liabilities	17.814	188.061	-	-	-	205.874
At December 31	**17.814**	**2.067.923**	**1.364.156**	**736.779**	**-**	**4.186.671**

Maturity analysis – derivatives (contractual cash flows)

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

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

This table includes all financial derivatives regardless of whether they have a positive or a negative value, but excludes the bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the 'paying leg' are taken into account for determining the gross undiscounted cash flows.

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	10.353	32.520	9.390	10.804	63.067
Cash outflows	-	-46.780	-156.688	-108.421	-56.577	-368.467

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	61.758	165.793	150.004	140.123	517.678
Cash outflows	-	-113.226	-314.259	-247.240	-189.933	-864.658

4.3. Credit risk management

This section describes credit risk management as applied by Aegon Hypotheken since the application of IFRS 9.

The estimation of credit exposure for risk management purposes requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. Aegon Hypotheken measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 4.3.4. 'Measuring ECL – Inputs, assumptions and estimation techniques' for more details.

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

Aegon Hypotheken operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. These limits are set by Aegon N.V. and also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon Nederland's internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. The policy is reviewed regularly.

During 2020 there was one breach regarding the CNLP, where for one counterparty the CNLP limit of EUR 200 million was exceeded by EUR 14 million. This breach was the result of a downward adjustment of the limit as a result of a downgrade of the issuer was corrected by selling some short term investments. Similarly there was also a breach in 2019, where for one counterparty the CNLP limit of EUR 135 million was exceeded by EUR 34 million. This breach was the result of maturing Credit Default Swap (CDS) and was corrected by closing a new CDS. Both these breaches were reported to the local Risk & Capital Committee (RCC) and did not require reporting to the Global RCC.

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

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

4.3.1. Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by Aegon Hypotheken.
  - If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 4.3.2. for a description of how Aegon Hypotheken determines when a significant increase in credit risk has occurred.
  - If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.3.3. for a description of how Aegon Hypotheken defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- Financial instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 4.3.4. for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4.3.5. includes an explanation of how Aegon Hypotheken has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Aegon Hypotheken employ separate models to calculate ECL on its mortgage loans and private loans portfolios.

ECL calculations are performed on an individual basis, as such no grouping has been applied. Asset classes not covered in the ECL calculations are considered to have immaterial credit risk or to be of short-term nature.. Given the need to adapt the models to the different portfolio characteristics, the ECL model contains a number of key judgements and assumptions. As such, the below paragraphs outline the key judgements and assumptions made by Aegon Hypotheken in addressing the requirements of the Standard. Aegon Hypotheken has not applied the simplified approach to its ECL model.

4.3.2. Significant increase in credit risk (SICR)

Aegon Hypotheken considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

	Quantitative criteria	**Qualitative criteria**	**Backstop criteria**
Mortgage loans	- Variation in Forward-in-Time Probability of Default	- None	- 30 days past due
Private loans	- Relative changes of rating	- Watch-list approach	- No other backstop applied

Quantitative criteria
For mortgage loans the Variation in Forward-in-Time (FiT) Probability of Default (PD) is used as a primary indicator to assess significant increase in credit risk. This method assesses whether a significant increase in credit risk has occurred based on the relative negative movements in a mortgage loan's PD.

For private loans the relative change of the credit rating is used as primary indicator to assess significant increase in credit risk, for this purpose the CNLP credit ratings are used. The CNLP rating is a composite rating of the main rating agencies (Moody's, Standard and Poor's, Fitch). The rating agencies are using forward-looking macroeconomic factors and other available supportive information to rate a counterparty. In case no external credit rating is available to determine the composite CNLP rating, internal ratings are used.

Qualitative criteria
No secondary indicator is applied to mortgage loans, given that the Probability of Default variation approach has been applied. For private loans the watch-list approach is applied as an additional qualitative criterion.
The watch-list approach means instruments on the watch list are manually observed, the criteria for an instrument to move to the watch list are:

- The value either drops to 80% and below the (amortized) cost price and stays there for six months; or
- The value falls by 20% over 3 months; or
- The value falls to 60% and below the (amortized) cost price.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all financial instruments held by Aegon Hypotheken. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop
A backstop is applied in the mortgage loans portfolios to exposures considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. No backstop is applied to private loans, given that the 30 days past due presumption is rebutted based on the default backstop being 5 days past due on these instruments.

In line with regulatory requirements, Aegon Hypotheken has used the low credit risk exemption for private loans in the year ended 31 December 2020. As such, external and internal credit ratings are used respectively for these assets to assess whether a significant increase in credit risk has occurred.

4.3.3. Definition of default and credit-impaired Assets

Aegon Hypotheken assesses a financial instrument to be in default or credit-impaired using the following criteria:

	Quantitative criteria	**Qualitative criteria**
Mortgage loans	- 90 days past due	- Foreclosure - Sale at material economic loss (>1%) - Distressed restructuring
Private loans	- 5 days past due backstop	- Rating falling to "D" (external or internal) - Breach of significant covenants without reasonably supportable waiver obtained - Distressed restructuring taking place - Bankruptcy or an equivalent of an injunction for the obligor was filed - Obligor was classified as default internally

Aegon Hypotheken consents to a distressed restructuring of the credit obligation which is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of principal, interest or, where relevant, fees. With regard to distressed restructuring of credit obligations, the threshold for sale at material economic loss is set at 1%.

The definition of default has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given No Cure (LGN) throughout Aegon Hypotheken's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months and an assessment has shown the obligor is no longer unlikely to pay. Upon curing, the instrument will transfer from Stage 3 to Stage 2. The period of three months has been determined based on regulatory requirements which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

4.3.4. Measuring ECL – Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (Stage 1) or Lifetime basis (Stage 2/3) depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts Aegon Hypotheken expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents Aegon Hypotheken's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is calculated for a mortgage loan in Stage 2 and 3 that results in default by summing the probabilities of all future developments which end-up in the ECL. All possible future developments are enumerated and for each future development a probability is calculated. The possibility of full prepayment is included among all possible future developments. For each possible future development the probability is estimated using statistical modelling techniques.

Expected credit losses measured on a Stage 3 Lifetime basis are the discounted product of the expected amount of exposure that will default without cure, and the Loss Given No-cure ('LGN'), defined as follows:

- The expected amount that will default without cure is calculated as the current exposure amount times the sum of probabilities over possible future developments that result in default without cure. All possible future developments are enumerated and for each future development a probability is calculated. The possibility that an exposure amount is repaid by means of scheduled payments or unscheduled prepayments is included among all possible future developments. For each possible future development the probability is estimated using statistical modelling techniques.
- The LGN represents the expectation of the extent of the loss on an exposure that defaults without cure. The LGN varies by type and amount of exposure, and type and amount of collateral available, the presence of other credit support, the duration of default, and the macro-economic forecast. The LGN is expressed as a percentage loss per unit of exposure at the time of default. The LGN is calculated for each future quarter.

The LGN is based on factors that impact the recoveries made post-default. These vary by product type:

- For mortgages, this is primarily based on the collateral type and projected value, the estimated recovery rate on the collateral, NHG guaranty eligibility, and savings proceeds when applicable.
- For private loans, LGN is estimated using a statistical modelling technique on historical recovery rate data provided by rating agencies.

Forward-looking economic information is included in determining the 12-month and Lifetime ECL, as well as the Lifetime PD by using a set of variables describing the state of the macro economy as input in the calculation of the LGN and the probability of default and prepayment.

There have been no material changes in estimation techniques or significant assumptions made during the reporting period.

4.3.5. Forward-looking information incorporated in the ECL model

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. Aegon Hypotheken has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Expert judgment has also been applied in this process.

These economic variables and their associated impact on the ECL and Lifetime PD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are derived from DNB and Bloomberg. They provide an estimate of the economy over the next three years.After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of three years. Statistical regression analysis has been performed to understand the impact changes in these macro-economic variables have had historically on default rates, prepayment rates and the LGN.

Three macro-economic scenarios, upside, downside, and base, are generated, taking into account their correlation as historically observed. The upside and downside scenarios are generated by applying shocks to the historical average deviance from the long term observed in the best/worst 25% of the historically observed quarters. The shocks applied correspond to the historical average deviance from the long term mean observed in the best/worst 25% of the historically observed quarters. The ECL is a weighted average of the expected credit losses in all three macro-economic scenarios, where the weighting depends on the likelihood of the scenario. The use of multiple economic scenarios ensures that the ECL represents the best estimate of expected credit loss and is not merely the credit loss in the most likely scenario.

Additionally, the macro-economic scenarios are used in the assessment of SICR. The assessment of SICR is performed using the Lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators.

The assessment of SICR is performed using the Lifetime PD under each of the scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3, and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, Aegon Hypotheken measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Aegon Hypotheken considers these forecasts to represent its best estimate of the possible outcomes.

Economic variable assumptions
The most significant forward-looking considerations used for the ECL estimate as at 31 December 2020 for the mortgage loans are the house price index and the unemployment rate. The "base", "upside" and "downside" scenarios were used for the mortgage portfolio.

The weightings assigned to each economic scenario at year-end were as follows:

	Base	**Upside**	**Downside**
At 31 December 2020	45%	29%	26%
At 31 December 2019	50%	25%	25%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact. Therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

The most significant macro-economic assumptions affecting the ECL allowance for the mortgage loans are as follows:

(i) House price index, because it provides an indication of mortgage collateral valuations; and
(ii) Unemployment rate, because of its impact on obligors' ability to meet their contractual repayments.

Set out below are the changes to the ECL as at year-end that would result from reasonably possible changes in these parameters from the actual assumptions used in Aegon Hypotheken's economic variable assumptions:

	Stress scenario 2020		Stress scenario 2019	
House price index	-10%	+10%	-10%	+10%
	51	-48	319	-86

	Stress scenario 2020		Stress scenario 2019	
Unemployment rate	-1%	+1%	-1%	+1%
	360	46	-3	4

4.3.6. Write-off policy

Aegon Hypotheken writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where Aegon Hypotheken's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Aegon Hypotheken may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2020 was EUR 0.1 million (2019: EUR 0.1 million). Aegon Hypotheken still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.3.7. Modifications of financial assets

Aegon Hypotheken sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Such restructuring activities include extended payment term and pentalty interest arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. Aegon Hypotheken monitors the subsequent performance of modified assets. Aegon Hypotheken may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for three consecutive months or more.

Aegon Hypotheken continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets. The number of loans within Aegon Hypotheken's mortgage portfolio that are modified during 2019 are limited. There is no significant impact on the lifetime ECL from modifications of financial assets during 2019.

4.3.8. Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:
Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 2.5.3.).

The following table explains the changes in the loss allowance between the beginning and the end of the annual period for mortgage loans due to these factors:

	Mortgage loans 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 1 January 2020	**11**	**29**	**59**	**99**
Stage transfers	**2**	45	-47	-
New financial assets originated or purchased	4	10	-	14
Changes in PD/LGD/EAD	-2	28	116	142
Changes to model assumptions and methodologies	233	175	14	422
Financial assets derecognised during the period	-2	-5	-1	-7
Write-offs	-	-	-	-
Loss allowance as at 31 December 2020	**247**	**282**	**140**	**669**

	Mortgage loans 2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loss allowance as at 1 January 2019	**17**	**37**	**78**	**131**
Stage transfers	11	-8	-3	-
New financial assets originated or purchased	3	2	-	5
Changes in PD/LGD/EAD	-20	-9	-24	-53
Changes to model assumptions and methodologies	2	11	10	23
Financial assets derecognised during the period	-1	-3	-3	-7
Write-offs	-	-	-	-
Loss allowance as at 31 December 2019	**11**	**29**	**59**	**99**

Based on the tables above the following table presents a reconciliation of the loss allowance movements with an impact on the income statement with the net impairment charge presented in the income statement. Other represents impairment charges on asset types which are not individually material.

	2020	**2019**
Mortgage loans	558	3
Debt securities and private loans	-1	1
Net impairment charge in P&L / (reversals)	**557**	**4**

The following table further explains changes in the gross carrying amount of the mortgage portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above.

	Mortgage loans 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2020	**3.119.297**	**54.946**	**3.207**	**3.177.451**
Stage transfers	-34.785	33.265	1.520	-
New financial assets originated or purchased	182.973	2.244	147	185.363
Financial assets derecognised during the period other than write-offs	-821.200	-13.763	-1.210	-836.174
Write-offs	-	-	-	-
Other movements	-4.813	-23.409	561	-27.662
Gross carrying amount as at 31 December 2020	**2.441.472**	**53.282**	**4.224**	**2.498.979**

	Mortgage loans 2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount as at 1 January 2019	**3.182.818**	**65.544**	**3.031**	**3.251.394**
Stage transfers	2.327	-3.249	922	-
New financial assets originated or purchased	94.287	1.626	60	95.972
Financial assets derecognised during the period other than write-offs	-319.732	-8.975	-698	-329.405
Write-offs	-	-	-108	-108
Other movements	159.598	-	-	159.598
Gross carrying amount as at 31 December 2019	**3.119.297**	**54.946**	**3.207**	**3.177.451**

Other movements relate to the change in fair value of the mortgage loans that are designated in portfolio fair value interest rate hedging relationships.

Aegon Hypotheken does not have purchased or originated credit-impaired financial assets recognized during the period.

4.3.9. Credit risk exposure

Maximum exposure to credit risk - Financial instruments subject to impairment
The following table contains an analysis of the credit risk exposure of mortgage loans. Refer to note 4.3.4 for a more detailed description of ECL measurement. All asset categories not presented here are determined to have non-material credit risk or to be of short-term nature. The gross carrying amount of financial assets below also represents Aegon Hypotheken's maximum exposure to credit risk on mortgage loans.

	Mortgage loans 2020			
	ECL staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit grade				
Investment grade (NHG guarantees)	978.223	20.786	2.434	1.001.443
Investment grade (non-NHG guarantees)	1.463.496	31.267	117	1.494.880
Standard/Special monitoring		1.511	1.813	3.324
Gross carrying amount	**2.441.719**	**53.564**	**4.365**	**2.499.648**
Loss allowance	247	282	140	669
Carrying amount	**2.441.472**	**53.282**	**4.224**	**2.498.979**

	Mortgage loans 2019			
	ECL staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit grade				
Investment grade (NHG guarantees)	1.536.656	15.858	262	1.552.777
Investment grade (non-NHG guarantees)	1.582.653	31.309	313	1.614.275
Standard/Special monitoring	-	7.808	2.690	10.498
Gross carrying amount	**3.119.309**	**54.975**	**3.266**	**3.177.550**
Loss allowance	11	29	59	99
Carrying amount	**3.119.297**	**54.946**	**3.207**	**3.177.451**

The credit risk of mortgages is divided into mortgages which are NHG guaranteed, not NHG guaranteed and mortgages with standard / special monitoring. Mortgages which are more than 60 days in arrear will be classified under standard / special monitoring.

Maximum exposure to credit risk – Financial instruments not subject to impairment
The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL).

2020	**Maximum exposure to credit risk**			
	Gross exposure	Collateral received		Net exposure
		Collateral	Master netting agreement	
Loans to individuals	77	-	-	77
Derivatives with pos. values	14.554	-	14.554	-
Total	**14.632**	**-**	**14.554**	**77**

2019	**Maximum exposure to credit risk**			
	Gross exposure	Collateral received		Net exposure
		Collateral	Master netting agreement	
Loans to individuals	83	-	-	83
- Other	299.602	-	299.602	-
Total	**299.685**	**-**	**299.602**	**83**

4.3.10. Collateral and other enhancements

Aegon Hypotheken employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. Aegon Hypotheken has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

Aegon Hypotheken prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for mortgages are:

- Mortgages over residential properties;
- Guarantees given (e.g. NHG);
- Margin agreement for derivatives, for which Aegon Hypotheken has also entered into master netting agreements;

Aegon Hypotheken's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by Aegon Hypotheken since the prior period.

Aegon Hypotheken closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that Aegon Hypotheken will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

2020 **Credit-impaired assets**	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Loans to individuals: - Mortgage loans	4.365	140	4.224	4.177
Total credit-impaired assets	**4.365**	**140**	**4.224**	**4.177**

2019 **Credit-impaired assets**	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Loans to individuals: - Mortgage loans	3.266	59	3.207	3.249
Total credit-impaired assets	**3.266**	**59**	**3.207**	**3.249**

The following table shows the distribution of LtV ratios for Aegon Hypotheken's mortgage credit impaired portfolio:

Mortgage portfolio - LTV distribution	**2020**	**2019**
Lower than 50%	210	-
50 to 60%	1.377	-
60 - 70%	1.806	617
70 - 80%	831	579
80 - 90%	-	955
90 -100%	-	655
More than 100%	-	401
Total	**4.224**	**3.207**

4.4. Regulation and supervision

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The Wft embeds the cross-sectorial functional approach within the Dutch supervisory system. The supervision of financial institutions pursuant to the Wft rests with the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM).

The DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions and the conduct of business on financial markets. The aim of the DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector. Although Aegon Nederland is under supervision of DNB, Aegon Hypotheken does not fall under specific supervision of DNB.

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

The Dutch supervisory authorities have a number of formal tools to exercise their supervisory tasks. These tools include the authority to request information, if this is necessary for the purpose of prudential supervision; and the power to issue formal instructions to financial institutions, to impose fines, or to publish sanctions.

The Dutch Data Protection Authority (Dutch DPA) supervises processing of personal data in order to ensure compliance with laws that regulate such use. The tasks and powers of the Dutch DPA are described in the General Data Protection Regulation (GDPR), supplemented by the Dutch Implementation Act of the GDPR.

4.5. Product information

Aegon Hypotheken uses a variety of distribution channels to help customers assess which products and services are appropriate for their needs. In general, all business lines use the intermediary channel, which focuses on independent brokers in different market segments in the Netherlands.

In recent years, Aegon Hypotheken has invested heavily in its direct online channel on achieving a better digital self-service. Aegon Hypotheken distributes most of its products and services through intermediaries.

At present, Aegon Hypotheken mostly offers 'annuity mortgages'. Before 2013, Aegon Hypotheken also offered interest-only, unit-linked and savings mortgage loans, and is continuing to do so for existing mortgage loans that are being renegotiated. Mortgage loans are partly funded externally. In addition to residential mortgage-backed securities in Saecure – Aegon Nederland's Dutch residential mortgage-backed securities program and private placements - the Dutch Mortgage Fund is the main source of external funding. For this business, Aegon Hypotheken originates the mortgage loans fully for account of third parties and remains the service provider for these mortgage loans.

5. Cash and cash equivalents

	2020	2019
Cash on hand and balances with banks	83.734	120.565
At December 31	**83.734**	**120.565**

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

6. Loans

2020	Amortized cost	Fair value
Mortgage loans	2.498.978	2.586.434
Private loans	14.820	17.344
Other*	77	77
At December 31	**2.513.876**	**2.603.856**

2019	Amortized cost	Fair value
Mortgage loans	3.177.451	3.358.057
Private loans	17.044	19.268
Other*	83	83
At December 31	**3.194.579**	**3.377.408**

	2020	2019
Current	248.445	324.221
Non-current	2.265.432	2.870.357
Total financial assets, excluding derivatives	**2.513.876**	**3.194.579**

* Other loans do not pass for SPPI and are classified as fair value through profit or loss. The carrying amount is not impacted by this.

Certain mortgage loans shown within the category loans are designated in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 224 million as at December 31, 2020 (2019: EUR 232 million higher). Total movement of the mortgage loan portfolio due to hedge accounting was EUR 46 million during 2020 (2019: EUR 110 million). None of the financial assets have been reclassified during the financial year.

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

	2020	2019
At January 1	**99**	**139**
Addition charged to income statement	570	-33
Reversal to income statement	1	-7
At December 31	**670**	**99**

7. Group loans

	2020	2019
Loan Aegon Derivatives N.V.	363.089	459.183
At December 31	**363.089**	**459.183**

Current	363.089	459.183
Non-current	-	-
Total	**363.089**	**459.183**

The loan with Aegon Derivatives N.V. ('Aegon Derivatives') is cash collateral received under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Hypotheken. Movements in collateral result from movements in market values on derivatives and is settled daily. These borrowings are current borrowings. ESTR[4] interest is applied on the variation margin. Clearing costs will be charged on quarterly basis.

The carrying amounts disclosed reasonably approximate the fair values at year-end. No securities or guarantees have been agreed for these loans and no collateral is posted for these loans.

8. Derivatives

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives not designated in a hedge	6.835	290.786	14.028	335.870
Derivatives designated as fair value hedges	7.719	8.816	296.273	278.656
At December 31	**14.554**	**299.602**	**310.301**	**614.526**

	2020	2019
Current	-	-754
Non-current	-295.747	-314.169
Total net derivatives at December 31	**-295.747**	**-314.923**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 21 'Fair value of assets and liabilities'.

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

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives held as an economic hedge	6.835	290.786	14.028	335.870
At December 31	**6.835**	**290.786**	**14.028**	**335.870**

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

[4] As part of the IBOR Reform, the European clearing houses (Eurex and LCH) switched the remuneration for EUR cash collateral from EONIA (Euro Overnight Index Average) to ESTR (Euro Short-term rate) in July 2020.

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

Derivatives designated as fair value hedges

Aegon Hypotheken's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result. This offset is only possible when using the EU carve-out on hedge accounting, as otherwise the hedge would not have been 'highly' effective as required by IFRS. The table below summarizes the effect of the fair value hedges.

Effect of fair value hedges	2020	2019
Fair value changes mortgage loans recognized in income statement under the EU carve-out	35.993	97.839
Offset amount of fair value changes recognized on derivatives used as hedging instrument	-47.438	-97.993
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-11.445**	**-154**
Amortization of the base-adjustment	10.320	12.512
Total accounting hedge result	**-1.125**	**12.358**

The following table contains details of the hedging instruments used in Aegon Hypotheken's hedging strategies:

Fair value hedges	Accumulated amounts	
Macro fair value hedge	2020	2019
Carrying amount of the hedged item		
- Assets	1.888.588	2.444.842
- Liabilities	-	-
Accumulated amount of fair value adjustments on the hedged item		
- Assets	224.244	231.923
- Liabilities	-	-
Balance sheet line item - Loans	224.244	231.923
Changes in fair value of the hedged item for ineffectiveness assesment	**35.993**	**97.839**

The following table contains details of the hedged exposures covered by Aegon Hypotheken's hedging strategies:

	Carrying amounts	
Fair value hedges		
Macro fair value hedge	2020	2019
Notional	1.842.052	2.862.895
Assets	7.719	8.816
Liabilities	296.273	278.656
Balance sheet line item - Derivatives	-288.554	-269.839
Changes in fair value used in calculating hedge ineffectiveness	**-47.438**	**-97.993**

IBOR transition
The future of IBORs (Interbank Offered Rates) such as Euribor, Eonia and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/ panel input data. In the EU this is adopted in the new Benchmark Regulation (BMR) which stipulates that from January 2020 only BMR-compliant benchmarks may be used within the EU.

Aegon Hypotheken recognizes that IBOR transitions potentially have implications for all reporting units, including its insurance, asset management and banking activities. Despite current uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including a.o. derivatives, corporate bonds, structured debt products, deposits and mortgages.

The impact of the IBOR transition on the business and operating models are described in transition plans and include among others project solutions and actions, timelines, and ownership to ensure timely preparation and implementation. Aegon Nederland has started the implementation of the actions as described in the transition plans.

In July 2020, the discount rates used for EUR-denominated cleared derivatives was switched from EONIA to ESTR. Compensation has been exchanged through the clearing house for any resulting impact on the valuation of derivatives. The switch in discount rates is widely expected to result in increased liquidity in the new risk-free rates.

The majority of the fair value hedges are directly exposed to changes in benchmark rates (predominantly Euribor), as it is not clear until when this benchmark rate will be continued and how it will transition to alternative rates. For example, the majority of financial instruments designated as fair value hedges have a maturity date beyond December 31, 2021 (Gross notional amount EUR 2,740 million; 2019: EUR 2,043 million).

Aegon Hypotheken applies the reliefs offered in IAS 39 to ensure that this uncertainty does not result in the early termination of hedge accounting, whilst also assuming for measurement purposes that, owing to the general principle of equivalence, transitions to alternative rates will not result in significant contract modifications.

9. Other assets and receivables

	2020	2019
Investment debtors	812.777	878.273
Receivables from policyholders	2.929	3.541
Current account with group companies	409.932	-
Accrued interest	9.479	30.290
Current	**1.235.118**	**912.104**
At December 31	**1.235.118**	**912.104**

Included in investment debtors is a short term receivable to Dutch Mortgage Fund (DMF) of EUR 406 million (2019: EUR 361 million) in relation to the mortgages originated to the fund. For external fee partners an amount of EUR 66 million (2019: EUR 137 million) has been recognized. In the pipeline EUR 342 million (2019: EUR 314 million) has been recognized, which is divided over internal and external investors according to an allocation process.

The 'current account with group companies' relate to the current accounts with Aegon Nederland, Aegon Bank N.V. (or Aegon Bank) and Aegon Levensverzekering N.V. (or Aegon Levensverzekering).

The other assets and receivables presented above are mostly not externally rated. The carrying amounts disclosed reasonably approximate the fair values at year-end.

In the cash flow statement the movement in this account in the book year is disclosed the line items 'Accrued income and prepayments'.

10. Equity

	2020	2019
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	162.694	171.313
At December 31	**182.712**	**191.331**

The authorized share capital of EUR 90,000 is divided into 90 shares of EUR 1,000 nominal value each, of which 18 shares have been issued and fully paid. Aegon Hypotheken paid dividend of EUR 46.5 million (2019: EUR 3.5 million).

11. Borrowings and group borrowings

	Note	2020	2019
Debentures and other loans	11.1	2.725.112	3.045.797
Loan Aegon N.V.		352.000	225.000
Loan Aegon Levensverzekering N.V.		570.000	710.000
At December 31		**3.647.112**	**3.980.797**
Current		1.371.447	1.879.862
Non-current		2.275.665	2.100.935
Total		**3.647.112**	**3.980.797**

Aegon Hypotheken's funding arrangement with companies within the Aegon group consists of secured and unsecured borrowings from Aegon Levensverzekering of in total EUR 630 million, of which EUR 570 million drawn as per December 31, 2020, and of a committed credit facility of EUR 500 million, of which EUR 352 million drawn as per December 31, 2020 (2019: EUR 225 million), from its ultimate parent company Aegon N.V.

As part of the funding structure, Aegon Hypotheken pledged mortgage loans and pools of mortgage loans underlying to sub (e.g. junior) notes and subordinated loans in the warehouses held for own account for secured borrowings and pledged all its mortgage loans that are not already pledged otherwise to unsecured borrowings and revolving credit facilities. The secured and unsecured loans have a fixed rate, the revolving credit facility has a floating rate.

The carrying amounts disclosed reasonably approximate fair value at year-end. Refer to note 21 'Fair value of assets and liabilities' for information on fair value measurement of the 'Debentures and other loans'.

11.1. Debentures and other long-term loans

in EUR millions	Coupon rate	Coupon date	Issue / maturity	FORD	Legal maturity date	31-12-2020	31-12-2019
EUR 1.443 million 'SAECURE 15' RMBS Note	floating	quarterly	2014 / 20	Jan. 2020	Jan. 2092	-	918
EUR 875 million 'SAECURE 16' RMBS Note	floating	quarterly	2018 / 23	Oct. 2023	Oct. 2091	758	820
EUR 550 million 'SAECURE 18 NHG' RMBS Note	floating	quarterly	2019 / 25	Jul. 2025	Apr. 2092	422	491
Loan facilities warehouse mortgage loans	floating	monthly	- / 2022	-	-	802	333
Loan facility pre funding mortgage loans	floating	monthly	- / 2020	-	-	743	484
Total						**2.725**	**3.046**

Current	949	1.575
Non-current	1.776	1.471
Total	**2.725**	**3.046**

Residential mortgage backed securities (RMBS)
The RMBS notes were issued under the Dutch Saecure program. The net proceeds were used to finance a part of the existing Dutch mortgage portfolio of Aegon Hypotheken. The expected maturity of the RMBS notes is derived from the FORD which stands for the first optional redemption date. At this date Aegon Hypotheken has the first right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. All these notes are fully collateralized by mortgage loans which are part of the investments of Aegon Hypotheken. SAECURE 15 has been repurchased at FORD in February 2020.

Loan facilities warehouse mortgage loans
Committed financing takes place in a ‘warehouse’ structure for which a special purpose entity (‘SPE'), Aegon Hypotheken Financiering B.V. (‘Aegon Hypotheken Financiering’), has been incorporated. At the end of 2020, Aegon Hypotheken borrowed EUR 802 million via this warehouse structure (2019: EUR 333 million). The interest to be paid is derived from Euribor rates with an additional spread. Aegon Hypotheken has a total of undrawn external committed financing arrangements available for a period of more than one year of EUR 98 million (2019: EUR 667 million). A floating interest rate is applicable on these financing arrangements when drawn and a commitment fee when not.

Loan facility pre funding mortgage loans
In 2017 Aegon Hypotheken entered into loan agreements with third parties for temporarily funding of mortgages. These loans are secured by pipeline mortgage loans provided by Aegon Hypotheken. At year-end 2020 EUR 743 million (2019: EUR 484 million) has been drawn from EUR 1.000 million (2019: EUR 1000 million) available under this facility. These facilities are based on Euribor and additional spread for the drawn part and a commitment fee for the undrawn part.

12. Deferred tax

	2020	2019
Deferred tax assets	30.065	6.514
Deferred tax liabilities	-	-
Net deferred tax liability / (asset) at December 31	**-30.065**	**-6.514**

Movement in deferred tax

2020	Financial assets	Other	Total
At January 1	-6.514	-	-6.514
Charged to income statement	-5.814	-17.737	-23.551
At December 31	**-12.329**	**-17.737**	**-30.065**

2019	Financial assets	Other	Total
At January 1	-3.981	-	-3.981
Charged to income statement	-2.533	-	-2.533
At December 31	**-6.514**	**-**	**-6.514**

The deferred tax with respect to financial assets relate to derivatives, base-adjustment from hedge accounting and fair value reserves on mortgage sales. ‘Other’ relates mainly to the realized losses on the unwinding of a swaps portfolio. This loss is amortized over a period of 12.5 years.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to net current tax assets and liabilities and the deferred tax items relate to the same taxation authority. Deferred tax assets are recognized for temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when, in the opinion of management, it is probable that they can be utilized. Deferred tax assets and liabilities are expected to be recovered after more than one year after the balance sheet date.

13. Other liabilities and accruals

	2020	2019
Investment creditors	59.045	83.793
Income tax payable	10.537	8.733
Current account with group companies	-	49.888
Accrued interest	15.492	44.087
Other creditors	15.237	19.393
At December 31	**100.311**	**205.893**
Current	100.311	205.893
Total	**100.311**	**205.893**

The carrying amounts disclosed reasonably approximate the fair values at year-end, given the predominantly current nature of the other liabilities and accruals.

In the cash flow statement the movement in this account in the book year is disclosed the line items ‘Accrued expenses and other liabilities’ ((excluding the change of the ‘Current account with group companies’, as per year-end 2020 this item is included in the ‘Other assets and receivables’).

14. Interest income calculated using the effective interest method

	2020	2019
Interest income calculated using the effective interest method	77.966	96.491
Total	**77.966**	**96.491**

	2020	2019
Interest income accrued on impaired financial assets	119	95
Interest income on financial assets that are not carried at fair value through profit or loss	77.966	96.491

Interest income calculated using the effective interest rate relates to mortgage loans and private loans, which are measured at amortized cost.

15. Fee and commission income

	2020	2019
Administration fee income	100.152	89.174
Total	**100.152**	**89.174**

The services provided by the mortgage service center of Aegon Hypotheken include offering and management of mortgages as well as related bank and insurance products for other Aegon entities and external fee partners. For the services rendered to other Aegon entities and external fee partners, Aegon Hypotheken receives management fees. Of total fee and commission income EUR 100 million comprises fee income on financial assets and liabilities that are not at fair value through profit or loss (2019: EUR 89 million).

16. Results from financial transactions

	2020	2019
Realized gains / (losses) on financial investments	28.249	360
Net fair value change of derivatives	-4.341	16.320
Total	**23.908**	**16.681**

<u>Realized gains and losses on financial investments</u>

	2020	2019
Loans	28.249	360
Total	**28.249**	**360**

In 2020 Aegon Hypotheken sold mortgage portfolios to Aegon Bank and Aegon Levensverzekering. This sale was an incidental transaction due to overall ALM alignment within the Aegon Nederland group. Refer to note 26 'Related party transactions' for more information.

Net fair value change of derivatives comprise:

	2020	2019
Net fair value change on economic hedges where no hedge accounting is applied	-3.215	3.963
Ineffective portion of hedge transactions to which hedge accounting is applied	-1.125	12.358
Total	**-4.341**	**16.320**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2020	2019
Fair value changes mortgage loans recognized in income statement under the EU carve-out	35.993	97.838
Offset amount of fair value changes recognized on derivatives used as hedging instrument	-47.438	-97.993
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-11.445**	**-154**
Amortization of the base-adjustment	10.320	12.512
Total accounting hedge result	**-1.125**	**12.358**

17. Commissions and expenses

	2020	2019
Administration expenses	97.344	95.703
Other	7.726	14.240
Total	**105.070**	**109.943**

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

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

Remuneration Board of Directors
The members of the Board of Directors of Aegon Hypotheken are also members of the Boards of the other entities within the Aegon Nederland group, including the Board of Aegon Nederland. The members of the Board of Directors are employees of Aegon Nederland and receive their remuneration from Aegon Nederland. The total remuneration for their activities within the Aegon Nederland group pursuant to Section 383:1 of Book 2 of the Dutch Civil Code is set out below. The amounts are in euro, instead of EUR thousand.

Members of the Board of Directors	2020	2019
Gross salary and social security contributions	2.871.379	2.830.360
Pension premium	125.909	337.611
Other benefits*	1.070.733	433.793
Total	**4.068.021**	**3.601.765**

* 'Other benefits' consist mainly of pension compensation received due to the plan amendments as at January 1, 2020, shares allocated as fixed compensation, and the fixed expense allowance.

The members of the Board of Directors of Aegon Hypotheken have been granted Variable compensation, which is paid in both cash and Aegon N.V. shares. Detailed information on these Variable compensation plans are disclosed in the financial statements of Aegon Nederland.

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. With respect to the total remuneration of the Board of Directors of Aegon Nederland 26% (2019: 26%) was allocated to the income statement of Aegon Hypotheken.

Mortgage loans Board of Directors
On the reporting date, the current members of the Board of Directors had mortgage loans totaling EUR 2,560 thousand from a company associated with Aegon Nederland (2019: EUR 3,462 thousand) at variable interest rates ranging from 1.54% to 2,78% (2019: 2.09% to 2.80%) in line with the terms and conditions available to the employees of Aegon Nederland. Mortgages provided during the year amounted to EUR 300 thousand (2019: nil) and repayments amount to EUR 1,011 thousand (2019: EUR 596 thousand). Other movements within mortgages are the result of changes in the composition of the Board of Directors. No other loans, guarantees or advance payments exist.

17.1. Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Hypotheken's independent public auditor during 2020 and audited these financial statements. The fees for services rendered to Aegon Nederland need not be disclosed in this Annual Report, based on article 382a of Book 2 of the Dutch Civil Code. The aggregate fees for services rendered by PricewaterhouseCoopers Accountants N.V. to the whole group of Aegon N.V. are disclosed in the Annual Report of Aegon N.V.

The services can be split into 'Audit assignments' and 'Audit-related assignments'.

Audit assignments

- Audit of the (consolidated) financial statements of Aegon Hypotheken.

Included in these services are the other procedures required to be performed by the independent auditor to be able to form an opinion on Aegon Hypotheken's consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review.

Audit-related assignments

- Audit of internal control procedures;
- Audit of separate financial statements or audit of a specific element, account or item of a financial statement.

18. Impairment losses / (reversals)

The impairment loss of EUR 558 thousand (2019: a loss of EUR 4 thousand) relates to the mortgage portfolio.

19. Interest expenses calculated using the effective interest method/Other interest expense

	2020	2019
Interest expenses calculated using the effective interest method		
Borrowings	2.041	3.221
Short-term liabilities and deposits	10.340	9.866
Total	**12.381**	**13.087**

	2020	2019
Other interest expenses	36.092	52.487
Total	**36.092**	**52.487**

	2020	2019
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	12.381	13.087

Other interest expenses relates to the paying leg of interest rate swaps.

20. Income tax

	2020	2019
Current tax		
- current year	32.826	8.910
Deferred tax		
- origination / (reversal) of temporary differences	-20.846	-2.204
- changes in tax rates / bases	-1.936	-329
Income tax for the period (income) / charge	**10.045**	**6.377**

The temporary differences relate mainly to financial assets.

Reconciliation between standard and effective corporate income tax:

	2020	2019
Income before tax	47.926	26.824
Income tax calculated using weighted average applicable statutory rates	11.981	6.706
Difference due to the effects of:		
- changes in tax rates / bases	-1.936	-329
Income tax for the period (income) / charge	**10.045**	**6.377**

The weighted average applicable statutory tax rate for Aegon Nederland in 2020 and 2019 was 25%. The earlier enacted change in the applicable tax rate as of 2021 (from 25% to 21.7%, which was approved in December 2019) has been replaced by the new law for 2021. This law was approved in December 2020 and the new enacted tax rate for 2021 will remain 25%. The changes in the enacted tax rate have been taken into account in the (reversal of) deferred taxes.

21. Fair value of assets and liabilities

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

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

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

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

21.1. Fair value hierarchy

Aegon Hypotheken holds derivatives that are measured at fair value on a recurring basis. The derivatives, both assets and liabilities, both in 2020 and 2019 are considered Level II investments within the fair value hierarchy. During 2020 and 2019 there were no other financial assets or liabilities measured at fair value in the balance sheet of Aegon Hypotheken.

Significant transfers between Levels

Aegon Hypotheken's policy is to record transfers of assets and liabilities between Level I and Level II at their fair values as of the beginning of each reporting period. During 2020 and 2019 no amount of assets or liabilities was transferred from Level I to Level II, or transferred in or out of level III.

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

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities which are carried at fair value on a recurring basis. All of the instruments disclosed in the table are held at amortized cost.

<u>Instruments not included in the table</u>

Certain financial assets and liabilities that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include

- cash and cash equivalents,
- short-term receivables and accrued interest receivable,
- short-term liabilities and accrued liabilities
- group borrowings and group loans.

2020	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	2.499.573	2.587.029	-	-	2.587.029
Private loans	14.820	17.344	-	44	17.300
Other	77	77	-	77	-
Liabilities					
Borrowings	2.725.112	2.725.112	-	-	2.725.112

2019	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	3.177.432	3.358.057	-	-	3.358.057
Private loans	17.044	19.268	-	44	19.224
Other	83	83	-	83	-
Liabilities					
Borrowings	3.045.797	3.045.797	-	-	3.045.797

21.2. Fair value measurement

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

21.2.1. Mortgage loans and private loans

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

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

21.2.2. Derivatives

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

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

Aegon Hypotheken normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[5] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Hypotheken or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

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

21.2.3. Other borrowings

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

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

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

	2020		2019	
	Trading	Designated	Trading	Designated
Investments for general account	-	224.244	-	231.923
Derivatives with positive values	6.835	7.719	290.786	8.816
Total financial assets at FVTPL	**6.835**	**231.963**	**290.786**	**240.739**

	2020		2019	
	Trading	Designated	Trading	Designated
Derivatives with negative values	14.028	296.273	335.870	278.656
Total financial liabilities at FVTPL	**14.028**	**296.273**	**335.870**	**278.656**

The amount reported for mortgage loans relates to the higher carrying value of the mortgage loans that are designated in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. See note 6 'Loans'.

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

	2020		2019	
	Trading	Designated	Trading	Designated
Net gains and losses	-3.215	-1.125	-2.357	18.678

[5] International Swaps and Derivatives Associations

22. Commitment and contingencies

22.1. Investments contracted

In the normal course of business, Aegon Hypotheken has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2021. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the statement of financial position. Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages.

Contracted purchases	2020	2019
Mortgage loans	1.222.950	-

Contracted sales	2020	2019
Mortgage loans	1.033.021	560.239

Since 2020 Aegon Hypotheken is the contract partner for the mortgages originated under the Robuust label, and as a result, Aegon Hypotheken has significant contracted purchases at year-end 2020, whereas in 2019 the Aegon Levensverzekering was the contract partner. The sale of mortgage loans relate for EUR 1,023 million (2019: EUR 551 million) to committed purchases to group companies Aegon Bank and Aegon Levensverzekering. The remaining amount relates to pre-announced redemptions on mortgage loans.

In addition Aegon Hypotheken has mortgage loans contracted purchases, which, according to an allocation process will be divided over internal and external investors in 2020. Refer to note 9 'Other assets and receivables' for more information.

22.2. Litigations and proceedings

Aegon Hypotheken is involved in litigation in the ordinary course of business including claims for compensation of damage, penalties on top of the claims and class or group compensation. Aegon Hypotheken has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Hypotheken will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

23. Transfers of financial assets

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

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

<u>Assets pledged</u>

Aegon Hypotheken pledges assets that are on its statement of financial position in relation to long-term borrowings and group loans. In addition, for its derivative position, Aegon Hypotheken posts cash as collateral. These transactions are conducted under terms that are usual and customary to standard long-term borrowing and derivative transactions.

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

As part of Aegon Hypotheken's mortgage loan funding program, EUR 2.0 billion (2019: EUR 2.7 billion) have been pledged as security for notes issued. In relation to the group loans provided, Aegon Hypotheken pledged several assets, amongst others mortgage loans and pools of mortgage loans underlying to sub (e.g. junior) notes and subordinated loans in the warehouses held for own account for an amount of EUR 411 million[6] (2019: EUR 268 million) for secured borrowings and pledged all its assets that are not already pledged otherwise to unsecured borrowings and revolving credit facilities.

24. Offsetting, enforceable master netting arrangements and similar arrangements

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

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

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

<u>Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements</u>

	Assets		Liabilities	
	2020	2019	2020	2019
Financial instruments in balance sheet				
Gross (=Net) amounts of financial instruments	14.554	299.602	310.301	614.526
Related amounts not set off				
- Financial instruments	14.554	299.602	14.554	299.602
- Cash collateral pledged (excluding surplus collateral)	-	-	295.747	314.923
Net amount at December 31	**-**	**-**	**-**	**-**

The financial instruments referred to in this table relate to derivatives.

25. Group companies

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

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

- SAECURE 16 B.V. ('Saecure 16')
- SAECURE 18 NHG B.V ('Saecure 18 NHG')

SAECURE 15 NHG B.V has been called at FORD in 2020 and was liquidated. The structured entities relate to the securitization of mortgage loans. The contractual agreements with these entities do not include provisions in which Aegon Hypotheken could be required to provide financial support in certain circumstances. Aegon Hypotheken has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

[6] In 2020 there has been a change in the determination of the assets pledged for the group loans, the deferred purchase price is now also taken into account.

Aegon Investment Management in cooperation with Aegon Nederland setup Flexible Mortgage Program B.V., which is a Special Purpose Entity used to pass on mortgage loans originated by Aegon Hypotheken to end investors. The parent company of the SPE is Stichting Flexible Mortgage Program Foundation, which is not related to Aegon. The director of both the SPE and its parent, the foundation, is Intertrust Management BV, which is not part of Aegon Group and is not a related party either. Aegon Hypotheken and Aegon Investment Management act as service providers (agents) for mortgage origination, management and administration of the fund on behalf and for the benefit of the external investors and receive fee income in return. Aegon Nederland has no control over the SPE and therefore does not consolidate the SPE. Aegon Nederland and Aegon Investment Management also do not invest in the SPE or in the notes issued by the SPE.

26. Related party transactions

In the normal course of business, Aegon Hypotheken enters into various transactions with related parties. The principal ones are described in this section. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions between related parties have taken place on an arm's length basis, and include rendering and receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

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

Aegon Hypotheken participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Hypotheken uses to mitigate interest rate risk are concluded with Aegon Derivatives. Aegon Hypotheken has paid cash collateral on derivative positions via Aegon Derivatives, see also note 7 'Group loans'. The expenses are included in the charge from Aegon Nederland.

Aegon Hypotheken has group loans and borrowings. Refer to note 7 'Group loans' and 11 'Borrowings and group borrowings' for more information.

Except for the financing transactions listed above and sales transactions, the majority of the transactions with group companies run through Aegon Nederland and are settled through the current account with Aegon Nederland. Aegon Hypotheken has an uncollateralized current account relationship with Aegon Nederland. This current account position is subject to internally set limits which are monitored; regular realignments occur even if no limit is exceeded. At the end of the year, Aegon Hypotheken had a current account receivable of EUR 166 million with Aegon Nederland (2019: current account payable of EUR 232 million).

Aegon Hypotheken paid EUR 46.5 million dividend to Aegon Nederland in 2020 (2019: EUR 3.5 million).

The mortgages held by the Aegon Nederland group are managed and administered by Aegon Hypotheken. The recharge for these services was EUR 42.7 million (2019: EUR 41.4 million). The mortgages amounted to EUR 30.6 billion (book value) (2019: EUR 29.6 billion).

During 2020, Aegon Hypotheken has originated mortgages for Aegon Bank for a total amount of EUR 2.001 million (2019: EUR 943 million). In 2020 Aegon Hypotheken sold a mortgage portfolio to Aegon Bank of EUR 335 million (book value). The fair value was EUR 390 million.

Aegon Hypotheken has a current account relationship with Aegon Bank to facilitate the payment for the deliverance of mortgages by Aegon Hypotheken. These mortgage transactions are settled within several days. At the end of the year, Aegon Bank had a current account liability to Aegon Hypotheken of EUR 222.7 million (2019: liability EUR 77.3 million). No interest is charged regarding this account liability.

Aegon Bank offers a 'Banksparen' mortgage product in cooperation with Aegon Hypotheken. Aegon Hypotheken paid Aegon Bank EUR 5.7 million for this in 2020 (2019: EUR 5.1 million). The recharges are on normal commercial terms.

During 2020, Aegon Hypotheken originated mortgage loans for account of the Dutch Mortgage Fund/Dutch Mortgage Fund 2 and other funds, managed by Aegon Investment Management B.V., for in total EUR 7.2 billion (2019: EUR 4.3 billion).

During 2020, Aegon Hypotheken originated mortgage loans for account of Aegon Levensverzekering for an amount of EUR 1,571 million (2019: EUR 1,095 million). In 2020 Aegon Hypotheken sold a mortgage portfolio to Aegon Levensverzekering of EUR 216 million (book value). The fair value was EUR 253 million.

The sale of the mortgage portfolio to Aegon Levensverzekering and Aegon Bank of in total EUR 551 million (book value) generated a profit of EUR 28 million. This amount is made up of the book gain of EUR 92 million on the mortgages, adjusted for the amortization of the fair value hedges of EUR 54 million and the amortization of EUR 10 million.

Aegon Hypotheken has a current account relationship with Aegon Levensverzekering to facilitate the payment for the deliverance of mortgages by Aegon Hypotheken. These mortgage transactions are settled within several days. At the end of the year Aegon Levensverzekering had a current account payable to Aegon Hypotheken of EUR 21 million (2019: EUR 105 million).

Furthermore, in 2020 Aegon Hypotheken obtained a new loan facility with Aegon Levensverzekering. This loan facility is an uncommitted secured loan facility with a maximum of EUR 250 million. Aegon Hypotheken can request funding on a daily basis, but due to the uncommitted nature of the loan, Aegon Levensverzekering is not obligated to grant the request. Aegon Hypotheken pays a commitment fee on the undrawn amount and the coupon rate for the drawn amount is ESTR plus 80 bps. At year-end 2020 there was no commitment.

27. Events after the reporting period

In March 2021 EUR 13 million dividend was paid to Aegon Nederland.

On April 8, 2021, Aegon Hypotheken closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). ‘Saecure 20’ consists of EUR 657 million of class A notes with an expected weighted average life of 4.98 years and a coupon of 3 month Euribor plus 70 bps. The transaction is priced at a discount margin of 14 bps, hence the transaction was issued above par.

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

28. Approval of the consolidated financial statements

The consolidated financial statements of Aegon Hypotheken for the year ended 31 December 2020 were approved by the Board of Directors on April 8, 2021.

The consolidated financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the Consolidated financial statements, but may not amend these during the meeting.

The Hague, April 8, 2021

The Board of Directors,

M.J. Edixhoven (chair)	
B. Magid	
W.A. Hekstra	
A. Schlichting	
W. Horstmann	

Financial statements 2020 of Aegon Hypotheken B.V.

Report of the Board of Directors

See page 4 of the annual report for the Report of the Board of Directors.

Statement of financial position

(before profit appropriation)

	Note	31-12-2020	31-12-2019
Amounts in EUR thousand			
Non-current assets			
Financial fixed assets			
Loans	3	2.513.876	3.194.579
Derivatives	4	9.963	280.267
Long term loans and group loans	5	557.777	768.261
		3.081.616	**4.243.106**
Current assets			
Receivables			
Deferred tax assets	6	30.065	6.514
Other assets and receivables	7	1.235.118	912.104
		1.265.183	**918.618**
Cash and cash equivalents	8	83.734	120.565
Total assets		**4.430.533**	**5.282.289**
Equity	9		
- Share capital		18	18
- Share premium		20.000	20.000
- Retained earnings		124.807	150.866
- Net income / (loss)		37.887	20.441
Total equity		**182.712**	**191.325**
Non-current liabilities			
Derivatives	4	305.710	595.190
Borrowings and group borrowings	10	3.841.800	4.289.874
		4.147.510	**4.885.064**
Current liabilities			
Other liabilities and accruals	11	100.311	205.900
Total liabilities		**4.247.821**	**5.090.964**
Total equity and liabilities		**4.430.533**	**5.282.289**

Income statement

(for the year ended December 31, 2020)

Amounts in EUR thousand	2020	2019
Other income / (loss) after tax	37.887	20.441
Net income / (loss)	**37.887**	**20.441**

Notes to the financial statements

1. General information

For general information on Aegon Hypotheken we refer to note 1 'General information' of the consolidated financial statements.

2. Summary of significant accounting policies

2.1. Basis of preparation

The company's financial statements of Aegon Hypotheken have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Dutch Civil Code. In accordance with article 362.8, Book 2, of the Dutch Civil Code, the Company's financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements of Aegon Nederland. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

A reference is made to Note 2 'Significant accounting policies' of the consolidated financial statements for the description of the accounting policies applied.

With regard to the income statement of Aegon Hypotheken, article 402, Book 2 of the Dutch Civil Code has been applied, allowing a condensed format.

With regard to the cash flow statement of Aegon Hypotheken, the exemption as defined in the Dutch Financial Standards (RJ), Section 360.106 has been applied.

2.2. Group companies

Aegon Hypotheken holds no shares in the group companies. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

3. Loans

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

4. Derivatives

Certain derivative positions closed between Aegon Hypotheken and the Special purpose entities ('SPE's') Saecure 16 and Saecure 18 NHG is recognized in the consolidated financial statements, but cannot be recognized in the company financial statements of Aegon Hypotheken. This is due to the fact that the mortgage loans transferred to the SPE's are not derecognized in the financial statements. The derivatives that have prevented the derecognition are therefore not recognized. This is resulting in a difference with the consolidated financial statements. There are no other differences. Refer to note 8 'Derivatives' of the consolidated financial statements for more information.

5. Long term loans and group loans

	2020	2019
Loan Aegon Derivatives N.V.	363.089	459.183
Loan Aegon Hypotheken Financiering B.V.	81.133	70.823
Loan Saecure 15, 16 and 18 NHG	113.555	238.255
At December 31	**557.777**	**768.261**

Current	363.089	583.883
Non-current	194.688	184.378
Total	**557.777**	**768.261**

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

The loan to Aegon Hypotheken Financiering relates to the warehouse structure for mortgage loans and is subordinated. Aegon Hypotheken's funding structure consists of secured and unsecured borrowings from Aegon Levensverzekering. Refer to note 11 'Borrowings and group borrowings' of the consolidated financial statements for more information.

The Saecure loans pertain to the cash deposits held in the SPEs as pledge. In 2020 the mortgages from Saecure 15 were repurchased at FORD and this loan was repaid.

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

6. Deferred tax

Refer to note 12 'Deferred tax' of the consolidated financial statements for more information.

7. Other assets and receivables

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

8. Cash and cash equivalents

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

9. Equity

	2020	2019
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	124.807	150.866
Net income / (loss)	37.887	20.441
At December 31	**182.712**	**191.325**

2020	Share capital	Share premium	Retained earnings	Net income / (loss)	Total
At January 1	**18**	**20.000**	**150.866**	**20.441**	**191.325**
Net income prior year retained	-	-	20.441	-20.441	-
Net income current year	-	-	-	37.887	37.887
Total net income / (loss)	**-**	**-**	**20.441**	**17.446**	**37.887**
Dividend paid on common shares	-	-	-46.500	-	-46.500
Equity changes from relation with shareholder	**-**	**-**	**-46.500**	**-**	**-46.500**
At December 31	**18**	**20.000**	**124.807**	**37.887**	**182.712**

2019	Share capital	Share premium	Retained earnings	Net income / (loss)	Total
At January 1	**18**	**20.000**	**142.066**	**12.300**	**174.384**
Net income prior year retained	-	-	12.300	-12.300	-
Net income current year	-	-	-	20.441	20.441
Total net income / (loss)	**-**	**-**	**12.300**	**8.141**	**20.441**
Dividend common shares	-	-	-3.500	-	-3.500
Equity changes from relation with shareholder	**-**	**-**	**-3.500**	**-**	**-3.500**
At December 31	**18**	**20.000**	**150.866**	**20.441**	**191.325**

10. Borrowings and group borrowings

	2020	2019
Loan Aegon N.V.	352.000	225.000
Loan Aegon Levensverzekering N.V.	570.000	710.000
Loan Saecures	1.294.713	2.494.752
Loan Aegon Hypotheken Financiering B.V.	883.333	376.123
Loan facility pre funding mortgage loans	741.754	484.000
At December 31	**3.841.800**	**4.289.874**
Current	1.371.447	2.004.562
Non-current	2.470.353	2.285.312
Total	**3.841.800**	**4.289.874**

Refer to note 11 'Borrowings and group borrowings' of the consolidated financial statements for more information. The 'Loan Saecures' are accounted as payable to the SPEs (Aegon Hypotheken Financiering, Saecure 15[7], Saecure 16, and Saecure 18 NHG) because, under IFRS, the mortgage loans sold to the SPEs continue to be recognized on the balance sheet of Aegon Hypotheken (no 'derecognition'), as only the legal title has transferred to the SPE. Beneficial ownership of the portfolio remains with Aegon Hypotheken after sale of the mortgage loans.

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

11. Other liabilities and accruals

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

12. Remuneration Directors

Refer to note 17 'Commissions and expenses' of the consolidated financial statements for information on the remuneration of the Directors.

13. Remuneration Independent Auditor

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

14. Commitments and contingencies

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

15. Related party transactions

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

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 16. The recharge amounts to EUR 28.7 million (2019: EUR 30.2 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 1,340 thousand (2019: EUR 1,421 thousand). The amounts not paid to external note holders are recharged from Saecure 16 to Aegon Hypotheken. The amount recharged was EUR 20.3 million (2019: EUR 21.5 million).

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 18 NHG. The recharge amounts to EUR 24.3 million (2019: EUR 13.2 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 819 thousand (2019: EUR 433 thousand). The amounts not paid to external note holders are recharged from Saecure 18 NHG to Aegon Hypotheken. The amount recharged was EUR 22.6 million(2019: EUR 21.5 million).

[7] Only in the 2019-numbers, Saecure 15 has been repurchased at FORD in February 2020.

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to a warehouse. The recharge amounts to EUR 31.9 million (2019: EUR 24.9 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 36 thousand (2019: EUR 36 thousand). The amounts not paid to external note holders are recharged from a warehouse to Aegon Hypotheken. The amount recharged was EUR 27.9 million (2019: EUR 19.7 million).

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

16. Events after the reporting period

In March 2021 EUR 13 million dividend was paid to Aegon Nederland.

On April 8, 2021, Aegon Hypotheken closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). 'Saecure 20' consists of EUR 657 million of class A notes with an expected weighted average life of 4.98 years and a coupon of 3 month Euribor plus 70 bps. The transaction is priced at a discount margin of 14 bps, hence the transaction was issued above par.

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

17. Approval of the financial statements

The financial statements of Aegon Hypotheken for the year ended 31 December 2020 were approved by the Board of Directors on April 8, 2021.

The financial statements will be put for adoption to the General Meeting of Shareholders. The shareholders meeting may decide not to adopt the financial statements, but may not amend these during the meeting.

18. Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year of EUR 38 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The Hague, April 8, 2021

The Board of Directors,

M.J. Edixhoven (chair)	
B. Magid	
W.A. Hekstra	
A. Schlichting	
W. Horstmann	

Other information

Statutory provisions regarding profit appropriation

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

Article 17 Profit and distributions

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

Independent auditor’s report

Independent auditor's report

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

Report on the financial statements 2020

Our opinion

In our opinion:

- the consolidated financial statements of Aegon Hypotheken B.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2020 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements of Aegon Hypotheken B.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2020 of Aegon Hypotheken B.V., The Hague. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the following statements for 2020: the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

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

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The basis for our opinion

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

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

Independence

We are independent of Aegon Hypotheken B.V. in accordance with the 'Wet toezicht accountants-organisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Report on the other information included in the annual report

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

- the report of the board of directors;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the board of directors

The board of directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for

- such internal control as the board of directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 8 April 2021
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.R. Vermeulen RA MSc

Appendix to our auditor's report on the financial statements 2020 of Aegon Hypotheken B.V.

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

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

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

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

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

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.