Annual report 2020

Aegon Nederland N.V.

Aegon Nederland N.V.
Aegonplein 50
2591 TV The Hague

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Report of the Board of Directors

1. General information

Aegon Nederland N.V. ('Aegon Nederland'), incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland's subsidiaries offer life insurance, pensions, savings and investment products, mortgages, accident and health insurance, general insurance, banking, asset management, pension administration and intermediary activities. Aegon Nederland operates from The Hague, Leeuwarden, Groningen, Zaandam, and Amsterdam.

Sales and distribution
Aegon Nederland uses a variety of distribution channels to help customers assess the products and services 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 Nederland has invested heavily in its direct online channel to achieve an enhanced digital self-service experience. Through its subsidiaries Aegon Nederland is one of the country's leading pension providers, providing a full range of pension products and services.

For the Knab label, Aegon Bank uses the direct and online channels to help its customers to make smart financial decisions. It does so by giving them a clear overview of their finances and helps them pro-actively by offering products and services to assist them to achieve their financial goals. In 2021, all Aegon Bank products and customers will be migrated to the Knab label. The distribution of the products (under the Knab label) via intermediaries will continue but will also be done via the direct and online channel.

1.1 Legal company and group structure

Aegon Nederland is a wholly-owned subsidiary of Aegon Europe Holding B.V. ('Aegon Europe Holding'). Aegon N.V., which is a listed entity, is the ultimate parent company of Aegon Nederland. For further information reference is made to note 42 'Group companies' in the consolidated financial statements.

1.2 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 (incl. Aegon Levensverzekering and Aegon Spaarkas) 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. As of June 1, 2020, the Individual Life book is serviced by IBM. The transfer of the administration of insured DC-policies to Aegon Nederland's subsidiary TKP Pensioen was largely finalized in 2020. In 2020 the transfer of the administration of the DB policies to TKP Pensioen was started. 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
In 3 years' time we want to be the most valued provider of modern solutions in the field of "Income" and "Living". 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).

Knab is increasingly focusing on modern (individual) pension solutions for retail customers, self-employed and SMEs,based on high customer satisfaction and direct contact with customers. By 2025 we want to have 700,000 customers, especially in the market of self-employed and small SMEs. We will complete the integration of Knab with Aegon Bank in 2021.

The strategic pillar "Workplace solutions for employers" consists of our business in the Wholesale market: Aegon Cappital, TKP Pensioen, Aegon Schadeverzekering, Robidus and Nedasco.

Aegon Cappital continues to grow in the DC pension market with currently 270,000 participants and EUR 4.2 billion assets under management. We aim to improve our existing market position and benefit from economies of scale through outsourcing to Aegon Asset Management and TKP Pensioen. Aegon will continue to (further) develop attractive services for intermediaries and customers, such as FinSnap.

TKP Pensioen benefits from its strong market position in the pension market and is a top-three player in the Dutch market for pension administration, with almost 4 million participants. With the insourcing of the pension administration for the new client PME pensioenfonds as of 2022, we expect to continue to grow and to invest in further digitization of services for employees and employers.

Aegon Schadeverzekering is one of our legal entities within the growth pillars Workplace solutions and consists of the segments P&C (*Property & Casualty)* and *Income Protection.*

1.3 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). Section 1.14 'Inclusion and diversity' describes the measures and initiatives Aegon Nederland is taken to increase (gender) diversity.

1.4 Employees

The average number of employees is 3,550, including 176 agents (2019: 3,582, including 211 agents), all working in the Netherlands. The expected developments in the total employees depends on the company's strategic choices made.

On March 11, 2021 Aegon Nederland submitted a request for advice to the Central Works Council (COR). With this request for advice, Aegon Nederland intends to transform and align the structure of the organization with the new strategy and a cost reduction. The request for advice includes the consequences of a large number of initiatives from the Transformation program (refer to section 1.11 'Transformation program'). The organization will be restructured into four business lines Life, Bank, Mortgages and Workplace Solutions and support departments will be decentralized, where possible.

1.5 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.

1.6 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. Further the remuneration policy of Aegon Bank, a subsidiary of Aegon Nederland, is in line with the Regulation on Sound Remuneration Policies (Regeling beheerst beloningsbeleid as issued by the Dutch Central Bank (DNB)) and remuneration requirements from the Capital Requirements Directive IV (Richtlijn kapitaalvereisten - CRD IV). In addition the policy is in line with various remuneration guidance, technical requirements and standards from the European Banking Authority applicable to banks within the European Economic Area (EEA) as declared by European Commission (EC). For the purpose of the application of the applicable national and international regulations Aegon Bank is regarded as a local or less significant financial institution.

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 information regarding the variable compensation of the Board of Directors please refer to note 33 'Commission and expenses' in the consolidated financial statements.

1.7 Regulation and supervision

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The 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. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank ('ECB').

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

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.

1.8 Low interest rate environment

During 2020 the interest rates further declined, leading to Aegon Nederland's income statement movements being largely driven by spread and interest rate movements. Furthermore, these spread and interest movements increased the Liability Adequacy Test (LAT) Headroom deficit, which was triggered during 2019, even further. This lead to significant losses in the income statement. As the available unrealized gains have been fully absorbed by the LAT deficit since 2019, future negative credit movements and actuarial assumption changes will impact earnings going forward. Interest rate movements will also impact earnings, but this is largely offset by hedged positions (a.o. interest derivatives). Finally, low interest rates put pressure on normalized capital generation, as the UFR (Ultimate Forward Rate) drag on capital generation increases.

1.9 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 Nederland's financial performance

The impact of COVID-19 on Aegon Nederland was relatively limited. When the pandemic started in the first quarter of 2020 with full force, Aegon Nederland anticipated that the results of especially the Non-life business would come under severe pressure, fearing setbacks in terms of absenteeism and travel insurance or that pension customers could not meet their obligations. But looking back at the results over 2020 it was much better than expected, although we experienced a rise in travel and disability insurance claims when the pandemic first struck. The same applies to the investment results; where we expected negative effects of the Coronavirus disease outbreak due to extreme volatile markets. When central banks and governments around the world collaborated to reduce the impact of the pandemic on the real economy, financial markets recovered strongly. However, as long as this pandemic remains these aspects will remain focus-areas for Aegon Nederland.

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.

1.10 Business developments

Aegon Levensverzekering

Changes in investment strategy
The year 2020 can be categorized as extremely volatile, due to the COVID-19 pandemic. In March 2020, all liquid assets declined in value: stocks dropped, spreads widened and interest rates rose. In the midst of this financial turmoil, Aegon Levensverzekering decided to change its investment strategy by shifting more to liquid credits and out of cash and money market instruments making use of the higher spreads. The goal of this shift was twofold. First, this change would lead to an increase in Solvency II capital generation and IFRS underlying earnings. Second, it would reduce the volatility in the Solvency II balance sheet, as investments were reducing the basis-risk versus the EIOPA volatility adjustment. When central banks and governments around the world collaborated to reduce the impact of the pandemic on the real economy, financial markets recovered strongly. We continued to shift cash and money market investments towards liquid credits during this recovery period.

Life - Pensions
Interest rates have been low for an extended period of time. Together with the fundamental changes of the Dutch pension system per 2026 this drives a shift from Defined Benefit (DB) pension plans to Defined Contribution (DC) pension plans. In DC plans all investment risk and longevity risk is borne by the policyholder and Aegon Nederland offers these in a separate legal entity, Aegon Cappital. Aegon Levensverzekering now primarily manages premium paying DB products, immediate pension annuities, and existing DB and DC books. As of 2021, Aegon Levensverzekering will stop offering new DB premium paying contracts and only continue with renewals in DB subscriptions while managing these contracts as a financial asset.

The transfer of the administration of insured DC-policies to Aegon Nederland's subsidiary TKP Pensioen was largely finalized in 2020. In this process data was enriched with 'Basisregistratie personen' data for retired members where previously no data on the spouse was available. Refer to note 3.1 'Changes in estimates' in the consolidated financial statements for more information. Together with the administration of Aegon Cappital, practically all DC schemes of Aegon Nederland are now administered at TKP Pensioen. In 2020 the transfer of the administration of the DB policies to TKP Pensioen was started. As a result, the first DB contracts were administered at TKP Pensioen in April 2020.

Aegon Levensverzekering is doing well in the market of immediate pension annuities out of DC-capital on retirement age. In a very competitive market, Aegon Levensverzekering aims for quality over price and has continued its pricing discipline, thus achieving a positive gross Value of New Business.

The AFM imposed a financial penalty on Aegon Levensverzekering in 2020 for the way in which the product "Uitkerend Beleggingspensioen" (UBP) was developed in 2016. The financial penalty of EUR 0.5 million was given because Aegon Levensverzekering had not built in sufficient checks and balances to protect the interests of participants during the development of the UBP. Already in 2019, a reparation action was initiated whereby both the development and the acceptance process of the product were improved resolving the issue. Aegon Levensverzekering did not contest this fine and cooperated with the AFM on resolving this issue.

Life - Individual
In line with 2019 the year 2020 showed a continued decline in the market for endowment products and a further decrease in our in-force portfolio. Hardly any new business was generated in this market segment, largely due to the strategic decision to stop offering new business in the Term-Life and (Deferred) Annuity proposition in the second quarter of 2020.

Aegon Levensverzekering manages the existing life portfolio as efficiently as possible and is optimizing its portfolio from both the customers' and Aegon Nederland's perspective. The decreasing portfolio requires stringent control of costs which should reflect the (downward) movements in the portfolio. To keep a grip on the costs of the declining portfolio, Aegon Nederland started business process outsourcing (BPO) for the individual Life service book as of June 1, 2020. This BPO will be carried out in cooperation with partner IBM and makes Aegon Nederland's costs more variable, but at the same time more predictable.

Working closely with Aegon Nederland's banking business and the BPO partner, Aegon Nederland continues to offer customers integrated solutions and services fit to the customer demands.

<u>Aegon Spaarkas</u>
The portfolio of Aegon Spaarkas, which sold a specific kind of unit-linked products, has been closed for a few years already. Hence, no new products are introduced by Aegon Spaarkas. Similar to the Life - Individual portfolio this portfolio is steadily decreasing in size, which is why the Spaarkas portfolio is also part of the BPO described before. Furthermore, Aegon Spaarkas continues to manage and optimise this portfolio as efficiently as possible from the perspective of its customers and the perspective of Aegon Nederland. Refer also to the Koersplan and unit-linked products sections in this report.

<u>Aegon Schadeverzekering</u>

Consumer P&C (Property & Casualty)
In 2020 we have seen the continuation of trends that have been present in the market over the last few years (changing consumer behavior, development of direct sales channel, intermediary consolidation, focus on risk and control). However, most of all 2020 has been an unprecedented year from an underwriting perspective as a result of the COVID-19 pandemic.

Compared to 2019 - which was a year with a tremendously positive claim experience for the whole Non-Life P&C market - underlying claim levels have normalized in 2020. In February 2020 three consecutive weekends of (medium strength) storms hit the Netherlands: storms Ciara, Dennis and Ellen. These have impacted the property book of Aegon Schadeverzekering in the first quarter of 2020 but have been compensated by a healthy loss ratio in the remainder of the year. Then from March 2020 onwards COVID-19 started impacting the portfolio.

Throughout the rest of 2020, underwriting performance has been an unusual journey as lockdown measures came and went, traffic movement decreased, and people stayed at home more. Looking back there is some impact visible, however most product lines have generally shown normal patterns of claims with small intervals of decreased claim activity due to strict lockdown periods. Most notable is the claim development of travel insurance claims after the initial peak of (valid) COVID-19 cancellations. Claim activity was present in the summer holiday season, although lower than usual. But especially in the last quarter of 2020 incurred claims have fully stopped.

Income (Accident & Health) market
Aegon Schadeverzekering continuously looks for opportunities in the Income (Accident & Health) market: cooperating with service providers to further improve support to employers and entrepreneurs in dealing with absenteeism and disability in the best possible way and to reduce the number and volume of claims.

During 2020 the impact of COVID-19 also impacted the Non-Life Income market. Uncertainty around the potential impacts of the lockdown and lack of clarity of government support initially led a large spike in reported sick leave during the first lockdown. Effort was placed on helping employers deal with the registration, which led to a sharp and swift recovery of these registered cases in the sick leave portfolio.

The increased government support for employers (for example the 'NOW regeling') has offset any potential short-term impact on claim experience in the Accident & Health portfolio. The long-term effects are however still unclear, as most products contain waiting periods to dissect short term disability from long-term disability.

In December 2020 Aegon Schadeverzekering entered into a disability reinsurance contract of its AOV individual portfolio with a group of reinsurers effective from December 31, 2020 for a three year period, with the option on mutual agreement to renew for periods of three years. Refer to section 2.2 'Solvency II' for more information.

In April 2020, the Dutch Association of Insurers (Verbond van Verzekeraars) issued a position paper in April 2020 regarding the fiscal and accounting treatment of the 'inkomensafhankelijke bijdrage Zorgverzekeringswet'. Based on the insights from this new guidance Aegon Schadeverzekering re-estimated its provisions for WGA-supplement and WGA-Upgrade products. Refer to note 3.1 'Changes in estimates' of the financial statements for more information.

Aegon Hypotheken
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 agglomoration 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.

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 Dutch Association of Insurers 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

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

movement towards the lower risk buckets, activities aimed at very high risk customers showed positive outcomes.

Aegon Bank
Aegon Bank operates within the Dutch retail banking landscape via two labels: Aegon Bank; and Knab. Via these labels, various banking products are being offered to its clients.

Knab
Introduced in 2012 as one of the first fully online / digital banks in the Netherlands operating under the Aegon Bank banking license. Regardless of operating under the Aegon Bank license, Knab is in the market being perceived as an autonomous bank with its own branding, marketing and culture and has since then grown to a customer base of more than 250,000 customers. Knab aims to be the most customer-oriented financial platform in the Netherlands, by informing customers about their personal financial situation and enabling them to achieve their financial goals. It's therefore Knab's mission to help people manage their money matters now and in the future. This reflects the core of Aegon's purpose. As an online bank, Knab offers payment accounts, savings and a basic investment product.

Aegon Bank
The Aegon Bank label focuses on customers whose income and wealth is in the middle-market, in line with Aegon Nederland's target group. Aegon Bank offers simple and high-quality products. These include both savings products focused on security, and investment products focused on a suitable risk/return profile that fits the customer's need and risk appetite. With these products Aegon Bank reinforces the Aegon Netherlands wide pension offering. Aegon Bank's activities mainly focus on 'Banksparen' products'. 'Banksparen' is a tax-deferred savings product in which amounts are deposited in a 'locked' bank account. The amount saved is available after a certain period of time for specific purposes such as for a supplementary pension or paying off a mortgage. This product is predominantly sold via independent financial advisors who remain a very important distribution channel.

Aegon Bank's strategy, the liquidity ratio as well as the solvency ratio were maintained at prudent levels and the solvency ratio remained above the target level throughout the year. Stress tests show that we continue to have a stable and solvent financial position with substantial buffers to absorb any extreme but still plausible shocks in the financial markets.

In November 2020, Aegon Bank priced its fifth EUR 500 million 5 year Covered bond with a yield of -/- 0.362%. The deal was 5 times oversubscribed and successfully placed with more than 80 institutional investors. Furthermore the EUR 750 million first inaugural Covered bond was repaid in December 2020. Aegon Bank classifies the securities as operational leverage.

In May 2020, Aegon Bank issued SAECURE 19 and purchased all of the notes issued by SAECURE 19. The notes are ECB eligible retained notes and therefore generated increased liquidity capacity for Aegon Bank.

One brand
During 2019, it was decided to integrate Aegon Bank and Knab to combine the strengths of the two banks in online/digital banking. Knab will be the single banking brand for Aegon in the Netherlands. By integrating both operations and rationalizing product offerings costs will be reduced, operations will be more efficient, and governance unified and simplified. As such, Knab discontinued its mortgage and insurance platform activities during the course of 2019 and ceased all mediation and advice activities. During 2020 both organizations were integrated and during 2021 the Aegon bank label products and customers will be migrated towards the Knab label. Aegon Bank will continue to reinforce the Aegon Netherlands wide pension offering with its banking (savings, bank savings and investments) products, but under the Knab brand.

Aegon Cappital
Aegon Nederland started to operate in the PPI market with two different PPI-concepts in 2011; Aegon PPI focused mainly on smaller enterprises with its 'Pensioenabonnement' (subscription proposition) and Cappital focused on the corporate market where it enjoyed a strong position and a good reputation. Based on transparent and accessible DC pension schemes they responded to employers' needs regarding their responsibility towards employees. Many new customers, large and small, and intermediaries have discovered the modern pension propositions of the two PPI's.

In 2018 the boards of the two PPI's decided to merge the two entities in order to realize desired economies of scale, improve their digital services and provide customers with more choices. Approval for the merger was obtained from DNB in 2018 and as of January 1, 2019 Aegon PPI and Cappital merged into a single entity named "Aegon Cappital B.V." (Aegon Cappital), which uses the administration platform of TKP Pensioen.

Over 2020, Aegon Cappital continued to grow in terms of customers (both employers and participants) and Assets under Management despite the Covid-19 pandemic. The lifecycle investments of the participants were able to absorb the market shock in March preventing losses over the year. The Covid-19 pandemic didn't lead to more payment arrears or bankruptcies over the year. Aegon Cappital improved the subscription product which resulted in many new customers in the product and high retention of existing customers. In addition, the pension portal has improved such that employer, participant and advisor can find up-to-date (pension) information. The marketing team focused on improving social media campaigns, webinars and customer communication. Customer satisfaction (NPS) improved over the year for both customers and advisors. Aegon Cappital has also started preparations of the implementation of the Pension Agreement.

For 2021, Aegon Cappital expects further growth in terms of new customers and Assets under Management from saving premiums and incoming transfers of pension savings from existing clients. Aegon Cappital will continuously improve its products taking into account input from our customers, participants and advisors. Aegon Cappital will increase the number of offered lifecycles from three to five. In addition, Aegon Cappital will make further improvements to services for the employer, participant and advisor as these stakeholders remain the core focus of our business. In the first half year of 2021 the administration of the pension investment accounts will be transferred to Ohpen. With this, Aegon Cappital will use the state of the art investment administration platform. Aegon Cappital will also start preparing for the implementation of the new Pension Agreement. Aegon Cappital will continue preparing the implementation of the new Pension Agreement by informing their customers.

TKP Pensioen
TKP Pensioen is a top 3 player in the Dutch market for pension administration. TKP Pensioen administers pension rights for large company and industry pension funds as well as other pension providers. Additionally, TKP Pensioen takes care of the communication for these clients: from the mandatory pension statements to customer contact and digital customer service. At the end of 2020, 24 customers entrusted this important work to TKP Pensioen. Their clients - more than 3.8 million participants - rely on TKP Pensioen for correct and timely pension payments and clear and accessible pension information and communication. Key to the strategy of TKP Pensioen is the focus on simplicity for customers, participants and employers. TKP Pensioen offers participants and employers online self-service, more convenience and personal contact. In addition, TKP Pensioen is a strategic partner for its clients, who ensures reliable and flexible pension administration that runs smoothly, at low costs. And a knowledge partner who knows what is going on in the market and shares this with his clients. With our change program TKP Connect, TKP Pensioen is taking major steps in improving and digitizing its services.

The specialists at TKP Pensioen work for 21 pension funds and associated social funds, one general pension fund (with seven pension circles), one premium pension institution and the pension business of Aegon Levensverzekering. On behalf of these customers, TKP Pensioen paid out approximately EUR 2.6 billion in pensions to almost 450,000 participants in 2020.

In 2021, two important developments will converge: the implementation of the changes from the pension agreement, which fundamentally changes the Dutch pension system per 2026, and TKP Connect. Furthermore, as of 1 January 2021, Pensioenfonds Kappers and Pensioenfonds Meubel will transfer their administration to TKP Pensioen. The PME pensioenfonds, with approximately 625,000 participants, will switch to TKP Pensioen the following year - on 1 January 2022. Due to the departure of Pensioenfonds Detailhandel, the number of participants will temporarily decrease to approximately 3.1 million in 2021.

Nedasco
Nedasco is a serviceprovider providing intermediary-services in the field of assurances. Nedasco provides these intermediaries with a quick and easy access to acknowledged insurance companies. Nedasco has a strong focus on the business market and aims to be the best partner for the intermediaries in this field. Nedasco wants to achieve: more purchasing power, less costs per policy, more opportunities for growth and more presence in the south of the Netherlands.

Robidus group
The Robidus group offers integrated solutions including BPO Services & Consulting, intermediation of insurances and specialized software applications in the field of social security. During 2020 the Robidus group continued to create the best employability platform within the Netherlands. Through a proven software platform, the Robidus group has built client propositions which deliver tangible benefits for its clients, resulting in considerable cost savings (by mitigating the risks of absenteeism and work disability) and improved productivity (by a strong focus on employability). This integrated service offering is unique in the Dutch social security market.

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 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.

1.11 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.

1.12 Risk Management

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

1.13 Collective Labor Agreement

In September 2020 Aegon Nederland reached agreement regarding a new Collective Labor Agreement (CLA) with the trade unions. This CLA will have a 2 year duration (2020-2022). The focus in the CLA is on further developing Aegon Nederland into a modern and inclusive employer with new arrangements like sabbatical leave, a pilot on unlimited annual leave, a sustainable employment scheme 5 years prior to state pension age, retraining programs for employees in promising sectors and the employee's right to be unavailable during his time off. Furthermore, following the research on equal pay between men and woman in the previous CLA Aegon will now investigate whether there's a glass ceiling and if so what are the underlying causes. Another research will be done on how employees can take more control of their development.

1.14 Inclusion and diversity

In addition to a balanced composition within the Supervisory Board and the Board of Directors we also aim for more gender diversity within our senior management population. Important measures and initiatives are being undertaken to ensure Inclusion & Diversity is becoming more and more a part of our recruitment, key talent processes and leadership dialogue. Making sure that we attract, retain and progress diverse talents within our organization. In December 2020, Aegon Nederland signed the Diversity Charter. This charter is a declaration of intent and is aimed at employers from the public and private sector. By signing the Diversity Charter Aegon promotes diversity and inclusion in the workplace. The charter provides support for the diversity policy and gives us access to a valuable community where knowledge and experience are exchanged, as 231 companies in the Netherlands have already preceded Aegon. The Diversity Charter is an addition to the collaborations that we currently have with, for example, the organization 'Talent to the Top'. The latter focuses mainly on gender diversity, whereas with the new charter Aegon is committed to multiple dimensions of diversity, including cultural diversity and people with an occupational disability.

1.15 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.

1.16 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. Compensation has been exchanged through the clearing house for any resulting impact on the valuation of derivatives, except for one counterparty who has not compensated, resulting in a loss of EUR 14 million (pre-tax). Aegon Nederland is currently investigating legal possibilities in this case.

1.17 IFRS 17 & IFRS 9

The International Accounting Standards Board (IASB) issued IFRS 17 for Insurance Contracts in May 2017. This Standard will replace IFRS 4. The objective of IFRS 17 is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information should provide users of financial statements with a basis to assess the effects that the contracts have on the financial position, financial performance, and cash flows of the insurer. IFRS 17 also specifies presentation and disclosure requirements to enhance comparability between insurance companies.

On June 25, 2020, the IASB decided, application subject to EU endorsement process, to defer the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. As a consequence of the IFRS 17 deferral, the IASB also agreed to revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4 to allow entities to continue applying the temporary exemption from IFRS 9 until January 1, 2023.

Aegon Nederland started an implementation project in 2018, soon after the publication of the new Standard, which will continue till the date on which IFRS 17 has to be implemented. The exact impact of IFRS 17 is not yet clear. Based on the final amendments of June 2020 of the Standard quantitative assessments were performed in 2020 and are expected to continue during 2021. The outcome of these quantitative assessments will form the basis for final methodology and policy choices. The impact of the initial application on the financial statements of Aegon Nederland and its insurance entities is expected to be significant.

Aegon Nederland is combining the implementation of IFRS17 with the Finance Transformation Program, in which Aegon Nederland optimizes underlying processes and systems to gain efficiency. Good progress has been made in 2020 and the program is on track for preparing to meet the start of the next dry run of the project in the first half of 2021.

1.18 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.

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

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

1.19 Pending litigation portfolio and product-related issues

Unit-linked products
Generally speaking, there is still media, political and regulatory attention regarding unit-linked policies (beleggingsverzekeringen). Individual customers as well as policyholder advocate groups and their representatives continue to focus on the fees and charges included in products, as well as alleged transparency aspects. Aegon expects this to remain an issue for the industry for the foreseeable future. Exposure and attention will be stimulated by court cases.

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

In June 2014, Aegon announced that it would voluntarily compensate holders of KoersPlan products who were not plaintiffs in the litigation. Compensation amounted to the difference, if any, between the actual premium charged by Aegon and the premium that would have been charged by Aegon for a comparable risk in a product providing only death benefit coverage over the same period. This product improvement is explicitly supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. A follow-up and extension of the Regeling Spaarbeleg for the Spaarbeurs and Spaarlift portfolio of Aegon Spaarkas started in 2017 and continued in 2019. Another follow-up improvement was announced in 2019 for the Fund/Safe portfolio.

In September 2014, consumer interest group Vereniging Woekerpolis.nl filed a class action against Aegon Levensverzekering and Aegon Spaarkas in court. The claim was related to a range of unit-linked products which Aegon sold in the past and include products that already had been subject to litigation, such as KoersPlan.

On June 28, 2017 (and revised in December 2017) the District Court of The Hague has rendered a final ruling which limited the scope to three products, Koersplan (tontine), Vermogensplan (tontine) and Fundplan (UL) and excluded all policies with a guarantee. The court upheld the principle that disclosures must be evaluated according to standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose the level of certain charges on a limited set of policies. According to the court these cost levels should be reasonable. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. Both The Vereniging Woekerpolis.nl and Aegon have filed an appeal against the ruling of the District Court in The Hague. The appeal proceedings are pending. The Court of Appeal has stayed the proceedings at the request of Vereniging Woekerpolis.nl. Accordingly, there have not been any developments in 2020. Furthermore there are individual claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) filed by customers over products of Aegon that arguably include similar allegations. At this time the decisions of Kifid and courts are far from homogenous.

Securities leasing products ("aandelenlease")
Lawsuits have also been brought against providers of securities leasing products. In September 2016 the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that a financial institution was liable where the broker ('remisier') who advised on the sales of this financial institution's securities leasing products was not properly licensed to provide advice with regard to such products. Individual clients and advocate groups have already claimed or alleged that this ruling also applies to Aegon securities leasing products. In July 2016, consumer interest group Platform Aandelenlease (PAL) filed a class action claim against Aegon Bank regarding Sprintplan. In February 2020 the Court of Appeal rejected all claims of PAL. This ruling has become final. Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing

products. Currently, proceedings are pending before the Dutch courts and Kifid, with numerous cases having been initiated by Leaseproces B.V., a company that represents a large number of claimants. In December 2020 Aegon Bank reached a signed letter of intent on a settlement with Leaseproces B.V. for claims regarding Vliegwiel and Sprintplan. The agreement is about the level of compensation customers will receive for these products. It is management's intention to finalize discussions, leading to a signed agreement in the near future.The settlement is subject to conditions precedent and further operational details are to be worked out. Full execution of the agreement is expected in 2021. The financial consequences of this have been included in the 'consolidated income statement' in 2020.

2. Financial information

2.1. Developments during the year

Underlying earnings reflect our profit from underlying business operations and exclude components that relate to accounting mismatches that are dependent on market volatility or relate to events that are considered outside the normal course business. Non-underlying earnings are earnings dependent upon market volatility or relate to events that are considered outside the normal course of business.

Earnings per line of business

Amounts in EUR million	2020	2019
Life	465	488
Non-life	12	32
Banking	113	102
Service business	74	18
Underlying earnings before tax	**664**	**640**
Fair value items	50	-365
Gains/(losses) on investments	14	241
Impairment charges / (reversals)	-47	47
Other charges	46	-111
Non-underlying earnings before tax	**63**	**-188**
Income before tax	**727**	**452**
Income tax	-189	-102
Net income	**538**	**350**

Aegon Nederland's income before tax in 2020 was EUR 727 million (2019: EUR 452 million). The underlying earnings before tax were slightly higher than in 2019 with EUR 664 million and the non-underlying items of EUR 63 million were EUR 251 million higher compared to prior year. In the following paragraphs more details on the development of income before tax are given.

Underlying earnings before tax

Underlying earnings before tax amounts to EUR 664 million (2019: EUR 640 million). The main changes per business line are explained as follows:

- The business line Life decreased with EUR 23 million compared to 2019, mainly the result of the net technical margin which was negatively impacted by the parameter updates for mortality.
- The business line Non-Life decreased with EUR 20 million compared to 2019. This decrease is driven by several developments in the 'Accident & Health' portfolio, among others: the decrease in interest rates, several model changes and parameter updates.
- Earnings within Banking increased with EUR 11 million compared to 2019. The continuing organic growth of bank savings resulted in an increased interest margin, which was partially offset by higher expenses in line with the growth of the business.
- Earnings in the Service business increased with EUR 56 million compared to 2019, mainly as a result of higher fees and revenues due to increased Assets under Administration for Aegon Hypotheken and higher revenues for TKP Pensioen from implementation and explementation of contracts.

Non- underlying earnings before tax

Fair value items

Total fair value items amount to a gain of EUR 50 million, compared to a loss of EUR 365 million in 2019. In 2019 Aegon Nederland had significant negative results due to the LAT (Liability Adequacy Test) headroom deficit of EUR 1.5 billion, which was partly offset by the positive results on the guaranteed portfolio (EUR 0.4 billion) and the positive results on the interest hedges of EUR 0.6 billion. In 2020 the negative results due to the LAT (Liability Adequacy Test) headroom deficit of EUR 1.1 billion was largely offset by the positive results on the interest hedges (EUR 1.0 billion) and the positive results on the guaranteed portfolio of EUR 0.1 billion. Revaluations on the real estate and alternative assets portfolio contributed EUR 0.1 billion to the fair value items (2019: EUR 0.2 billion).

Gains / (losses) on investments

Gains on investments were EUR 227 million lower compared to 2019. In 2019 capital driven action took place, resulting in the sale of a large portfolio of government bond and a significant profit. In 2020 no significant sales of investment portfolio took place.

Other income / (charges)

In 2020 other income amounted to EUR 46 million (2019: other charges of EUR 111 million). This amount consists of several items, of which the main ones are described below.

- In 2019, model changes and parameter updates had a negative impact on the non-underlying earnings of approximately EUR 46 million, whereas these had a positive impact of approximately EUR 225 million in 2020.
- In 2019 the amendment of the Aegon pension scheme per January 1, 2020 from a Defined Benefit plan to a Defined Contribution plan led to a release of the defined benefit liabilities of EUR 100 million. Furthermore in 2020, an additional provision was taken for EUR 45 million relating to the agreement that was reached between Aegon Bank and LeaseProces B.V. in December 2020. Refer to section 1.19 for more information.
- In 2020, the non- underlying operating expenses were EUR 50 million higher, explained by higher project and restructuring expenses.

Revenues

Amounts in EUR million	2020	2019
Pensions	1.239	1.236
Life	380	523
Accident and health	244	228
General insurance	130	130
Gross premiums	**1.994**	**2.117**
Investment income	2.088	2.231
Fees and commissions	255	237
Total revenues	**4.337**	**4.585**

Pensions

The single pension premiums increased in 2020 due to indexation and backservice single premiums. The recurring premium production decreased further, caused by lower premiums from the DB pension products, due to the low interest rates, as well as the continuous shift to DC products.

Life

Life premiums decreased significantly in 2020, which was the result of the decision of Aegon Nederland to stop selling individual life product as of March 2020.

Non-Life

The Non-Life premiums are in line with prior year. Non-Life consists of ‘Accident and Health’ and ‘General Insurance’. In 2020 the gross premiums for ‘Accident and Health’ were higher than 2019, due to higher sales of the AOV product; gross premiums for ‘General insurance’ were in line with 2019.

Mortgages

Total mortgage production in 2020 increased to EUR 11.0 billion (2019: EUR 7.4 billion) . Furthermore, high demand for mortgages combined with attractive interest rates increased production.

Fees and commissions expenses

Amounts in EUR million	2020	2019
Commissions	50	49
Operating expenses	814	855
Deferred expenses and amortization charges	-	2
Total commissions and expenses	**863**	**907**

Total commissions and expenses decreased compared to 2019 which is largely explained by lower post-employment benefit costs due to the amendment of the Aegon pension scheme per January 1, 2020.

Solvency and financial position
Group equity at December 31, 2020 amounts to EUR 6,976 million compared to EUR 6,790 million at year-end 2019. The increase is largely explained by the positive net income over 2020 of EUR 538 million, partly offset by the dividend paid to Aegon Europe Holding B.V. of EUR 175 million and negative other comprehensive income due to the remeasurement of the defined benefit plan of EUR 160 million.

Cash flows and funding
During 2020 the net cash flows decreased with EUR 4,075 million (2019: increase of EUR 3,023 million). This decrease is mainly explained by cash outflows from operating activities (-/-EUR 6,767 million) and cash inflows from financing activities (EUR 2,723 million).

Circumstances that impact future income and results
The main drivers of future income and results are interest rate developments and market- and demographic developments. No significant changes are expected for the following year regarding investing and financing activities. However, strategic investing opportunities are evaluated on an ongoing basis. Furthermore, Aegon Nederland did not perform significant activities regarding research and development during the year, nor expects to do so in the near future.

2.2. Solvency II

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

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

The following insurance entities of Aegon Nederland are subject to prudential insurance supervision of DNB:

- Aegon Levensverzekering;
- Aegon Schadeverzekering; and
- Aegon Spaarkas.

An insurance company is not permitted to conduct both life insurance and non-life insurance business within a single legal entity (with the exception of reinsurance). In addition, it is not permitted to carry out both insurance and banking activities within the same legal entity. Aegon Nederland is in compliance with this legislation.

Insurance companies in the Netherlands may conduct their activities on a cross-border basis or through a branch office based on the mutual recognition of (prudential) supervision in the EU (the so-called 'European passport'). Aegon Nederland does not have material cross-border insurance business or business conducted through branch offices elsewhere in the EU.

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

With respect to the Own Funds of Aegon Nederland, the liability calculation includes the use of the Volatility Adjustment (VA) but does not include the use of any transitional measures. Aegon Nederland uses a Partial Internal Model (PIM) to calculate the SCR for its life insurance activities under Solvency II. The Partial Internal Model was approved by DNB on November 26, 2015, concluding the Internal Model Application Process. Following the Internal Model Application Process, Aegon Nederland made several major changes to its PIM, the latest in 2020, all of which have been approved by the DNB.

In 2020 Aegon Nederland has identified improvements to its internal model that mitigate volatility caused by the basis risk between the EIOPA VA reference portfolio and its own asset portfolio. Therefore, Aegon Nederland has included a deterministic adjustment in the SCR calculations. These improvements were implemented for year-end reporting, and they will be in place until changes arising from the Solvency II review are enacted.

The aforementioned change to the PIM has been approved by the DNB and are therefore reflected in the solvency position of Aegon Nederland per year-end 2020. All other PIM changes were considered minor model changes for which no DNB approval was required.

Aegon Nederland uses a standard formula to calculate the solvency position of its non-life insurance activities related to Aegon Schadeverzekering under Solvency II. The solvency position of the banking activities will continue to be calculated using the CRR/CRD IV framework. The Solvency II ratio reported by Aegon Nederland is including the banking activities, in accordance with industrywide guidelines from DNB.

Aegon Nederland's capital position is provided in the table below:

	31-12-2020*	31-12-2019
Own Funds	6.948	6.692
Partial Internal Model SCR	4.177	4.021
Solvency II ratio	**166%**	**166%**

	Solvency II Ratio 2020*	Solvency II Ratio 2019
Aegon Levensverzekering	159%	164%
Aegon Schadeverzekering	176%	163%
Aegon Spaarkas	353%	395%
Aegon Nederland	**166%**	**166%**

*The Solvency II ratio for 2020 is an estimate. Concerning the individual insurance entities, it is not final until filed with the regulator and subject to supervisory review. For Aegon Nederland, no filing requirements apply. Furthermore, it should be noted that as per year-end 2020 Aegon Nederland reports a Solvency II ratio including banking activities (Aegon Bank), in accordance with industrywide guidelines from DNB. The comparatives have been adjusted accordingly.

The 2020 Solvency II ratio disclosed is without taking into account the dividend paid in March 2021; the 2019 Solvency II ratio disclosed is without taking into account the dividend paid in February 2020.

The Solvency II ratio of Aegon Nederland, including Aegon Bank, remained at 166% during 2020. This is a result of a proportionally higher increase in Own Funds compared to the increase in SCR. The increase in Own funds is driven by normalized capital generation, the impact from the mortality table update and market movements (where decreased interest rates resulted in an increase in Own Funds due to the overhedged position on a Solvency II basis, while movements in spreads, including the EIOPA VA and IAS19 spread, resulted in a decrease in Own funds). The Own Funds increase is partly offset by the impact from the UFR decrease from 3.90% to 3.75% and dividend payments in the first and fourth quarter of 2020.

The increase in SCR is driven by market movements (namely the overall decrease of interest rates resulting in higher underwriting risks, with an offset from the deterministic adjustment) and model and assumption changes, with an offset from normalized capital generation. The impact from model and assumption changes reflect several Pension model changes, a change in the capital treatment of illiquid assets (private loans) and the reduction of the LAC DT factor.

The lowering of Ultimate Forward Rate (UFR) from 3.75% to 3.60% in 2021 would result in an estimated impact of 6%-points decrease of the Solvency II ratio. The Solvency II ratio of Aegon Nederland does not include any contingent liability potentially arising from unit-linked products sold, issued or advised on by Aegon Nederland in the past as the potential liability cannot be reliably quantified at this point (refer to paragraph 39.4 of the consolidated financial statements).

Impact of the disability reinsurance contract of Aegon Schadeverzekering
The SCR decreased with EUR 32 million and the Own Funds increased with EUR 12 million as a result of the disability reinsurance contract Aegon Schadeverzekering entered into effective from December 31, 2020. Refer to note 4.2.9 'Underwriting risk' in the consolidated financial statements for more information. As a result, the Solvency II ratio of Aegon Nederland increased with 2%.

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

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

Recent developments Solvency II

DNB Q&A for LAC DT
On the 8th of December 2020 the DNB published a new Q&A for LAC DT. Within this Q&A additional guidance is provided regarding:

- Consideration of uncertainty within profit sources which increases over time;
- No external recapitalization allowed unless the recapitalization is unconditional, but also no recapitalization hurdle requirement;
- The IAS 12 substantiation is not sufficient anymore. It should be made clear from the Solvency II projections that sufficient future profit sources are available to substantiate the (pre-shock) DTA position;
- Reporting requirements.

Aegon Nederland decided to lower the factor applied when calculating the loss-absorbing capacity of deferred taxes (LAC DT) from 65% at year-end 2019 to 45% at year-end 2020 for Aegon Levensverzekering to reduce the sensitivity of this factor to economic variances going forward, and to take into account industry-wide Q&A and good practices recently published by the Dutch Central Bank. The DTA position can be substantiated based on Solvency II projections.

Furthermore, the factor of LAC DT is set at 50% for Aegon Schadeverzekering (a lowering compared to the 75% in 2019 reflecting economic uncertainty and lower new business expectations) and 75% for Aegon Spaarkas (unchanged compared to 2019). Furthermore, the corporate tax rate was increased to reflect the reversal of the corporate tax rate lowering in 2021 (from 21.7% to 25%). The LAC DT factor is assessed on a quarterly basis following DNB guidance and LAC DT related proposals in the SII regulation consultation paper of EIOPA.

DNB Q&A on contract boundaries AOV product
DNB has issued a draft Q&A on contract boundaries with respect to the AOV product. This draft Q&A is currently being discussed in the work group of the Dutch Association of Insurers. Once more clarity on this topic is available (expected during 2021), Aegon Nederland will perform an impact assessment.

Solvency II 2020 review
In December 2020 EIOPA issued its final opinion in respect of the technical advice requested by the European Commission in the context of the Solvency II 2020 review. In line with the draft technical advice and the questions raised by the European Commission, the opinion covers, among others, the following areas:

- Long-term guarantees (LTG) measures and measures on equity risk;
- Specific methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula;
- Technical provisions,
- Own Funds;
- Calculation of the Minimum Capital Requirement;
- Reporting and disclosure
- Proportionality;
- Group supervision;
- Freedom to provide services and freedom of establishment;
- Macro-prudential policy;
- Recovery and resolution;
- Insurance guarantee schemes, and
- other items related to the supervision of insurance and reinsurance undertakings.

The next step is for the European Commission to develop a legislative proposal that is currently expected to be published in the beginning of the fourth quarter of 2021. While the EIOPA Opinion is important input for the European Commission, it will develop its own opinion which elements of the EIOPA Opinion it will take into account and how these will be reflected in the legislative proposal. Subsequently, the co-legislators at European level will assess the proposal in order to come to final text, resulting in amendments to the Solvency II Directive and Solvency II Delegated Regulation.

DNB guidance issued during 2020
During 2020 DNB has changed its earlier guidance on the treatment of credit institutions in the group solvency calculation in accordance with Solvency II requirements. As of the fourth quarter of 2020, Aegon Nederland is required to include Aegon Bank into group solvency in accordance with Solvency II rules and as such, the Aegon Nederland capital position is including Aegon Bank as per December 31, 2020.

Sustainability and Solvency II
On March 8, 2018, the Commission adopted its Action Plan on Sustainable Finance in which it announced several actions to incorporate sustainable finance in the heart of the financial system. Subsequently, on 11 December 2019 the European Commission launched the European Green Deal and following up on the announcement of the Green Deal, the European Commission launched a consultation on 8 April 2020 on a renewed sustainable finance strategy, building on the action points identified in the initial 2018 Action Plan. Further to this Action Plan, the Commission had adopted, on May 24, 2018, a package of legislative measures on sustainable finance. The Commission has requested technical advice from (inter alia) EIOPA and ESMA on the delegated acts that would supplement this package amending, or, where necessary, introducing level 2 measures of, inter alia, the Solvency II Directive with the aim of incorporating sustainability risks, i.e. environmental, social and governance risks by financial market participants subject to those rules. In that context, on the request of the European Commission, EIOPA has provided, on September 30, 2019, an opinion to the European Commission on Solvency II and sustainability. The European Commission had requested EIOPA's views on the integration of sustainability, in particular climate-related developments, into the Solvency II framework for the valuation of assets and liabilities, investment and underwriting practices, the calibration of market and natural catastrophe risks and the use of internal models, i.e. focusing on Pillar 1 requirements. The European Commission is expected to take the EIOPA Opinion into account in the Solvency II 2020 review. In addition, EIOPA has provided, on April 30, 2019, the European Commission with technical advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD. This advice focused primarily on Pillar 2 requirements in Solvency II and IDD.

Furthermore, in November 2019 DNB published expectations for the ORSA in respect of sustainability. In November 2020 EIOPA has published a consultation on the use of climate change risk scenarios in the Own Risk and Solvency Assessment (ORSA) in the form of a draft supervisory Opinion as a follow-up of the earlier EIOPA Opinion on Sustainability within Solvency II, which recommended that (re)insurers consider climate risks beyond the one-year time horizon through the system of governance, risk-management system and their ORSA. The final EIOPA Opinion is expected to be published in the spring of 2021.

The capitalization of Aegon Nederland and its subsidiaries is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. For more details about the Solvency II target range, which is a self-imposed target range, refer to note 4.4 'Capital management and solvency' in the consolidated financial statements.

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

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 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 insurance industry has been in a period of major change for a number of years partly as a result of developments in the economy, climate changes and developments in technology, but also because customers, legislators and regulators require it. These changes are further enhanced by the recent COVID-19 pandemic and we expect these changes to continue in coming years.

Aegon Nederland operates in a changing environment: the labor market changes rapidly, people are living longer, the interest rates remain low, employers and employees demand more flexibility and as a result of these developments defined contribution plans are growing significantly at the expense of DB plans.

Aegon Nederland is committed to a sustainable future-proof pension system that provides adequate pensions for all participants in the labor market. Aegon Nederland is well and broadly positioned in the pension market with administration (TKP Pensioen), DC products (Aegon Cappital) and Insurance (Aegon Levensverzekering) to meet our customer expectations. We continue to invest in new solutions for employers and employees, are an opinion leader and actively involved in public discussions about retirement with all stakeholders.

The continued recovery of the 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.

Accident & Health products are very often complementary to the social security in the Netherlands and therefore dependent on changes in legislation. Social security has been reviewed by the Dutch government and changes in legislation will definitely have an impact on the Income business. Currently the political dialogue is ongoing and expected changes will have an outcome in the next few years. In this environment Aegon Nederland is positioning itself well with service providing (Robidus) and growing insurance solutions (Aegon Schadeverzekering).

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

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

The impact on Aegon Nederland of the draft Q&A on contract boundaries with respect to the AOV product issued by DNB is still unclear. Refer to section 2.2 'Solvency II' for more information on this topic.

5.2. Post reporting date events and expectations

In March 2021 EUR 25 million dividend was paid to Aegon Europe Holding B.V.

On April 8, 2021, Aegon Nederland 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	

Report of the Supervisory Board

1. General

The Supervisory Board has been in place since 2011 and functions as the supervisory board for Aegon Nederland and each of the insurance subsidiaries of Aegon Nederland that are under supervision of DNB, i.e. Aegon Levensverzekering N.V., Aegon Schadeverzekering N.V. and Aegon Spaarkas N.V.. The Supervisory Board has the duty to supervise and advise the Board of Directors on its management of the company. The Supervisory Boards of the insurance subsidiaries meet at least four times a year at regular intervals, simultaneously with the Supervisory Board of Aegon Nederland.

The members of the Supervisory Board take the oath or affirmation as required by the Financial Sector Oath or Affirmation Regulations.

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

In 2020, the Supervisory Board performed its duties in close co-operation with the Board of Directors and held six meetings. Moreover the Supervisory Board held several calls with the Board of Directors to discuss amongst other, strategic transformation programs. The Risk and Audit Committee of the Supervisory Board held five meetings. The Remuneration Committee held two meetings. The attendance percentage was high.

The regulated entities Aegon Bank N.V., Aegon Cappital B.V., Robidus Groep B.V. and TKP Pensioen B.V. have separate Supervisory Boards.

2. Subjects discussed during the meetings

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

- Strategy of the business portfolios and new strategic developments.
- Solvency II updates and discussions in general, regarding (inter alia) developments in the Solvency ratio and more specific developments and implications of (expected/future) major model changes.
- Initiatives and discussions on strengthening the Solvency II capital of Aegon Levensverzekering. The Supervisory Board discussed this extensively with the Board of Directors and closely monitored the decision making process and execution of the initiatives.
- Solvency II 2020 Reports, such as ORSA, SCFR and RSR reports.
- Quarterly business results. Each quarter the Supervisory Board was updated on and discussed the business results of the Aegon Nederland business portfolio.
- Technical deep dive sessions a.o. on the mortgage valuation methodology and the aggregation and proxy methodology.
- Capital Management Policy.
- Dividend proposals.
- Risk Appetite Policy and Key Risk Indicators.
- Supervisory Board self-evaluation (board effectiveness). The Supervisory Board evaluated its own functioning. The results were satisfactory and were discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken.
- PricewaterhouseCoopers Accountants N.V. Management Letter 2020.
- Annual report 2020.
- Audit plan 2020.
- Risk Management, Compliance and Actuarial Function reports.
- Customer NPS.
- Cost efficiency developments.
- Updates on the execution of and preparation for implementation of impactful laws and regulations
- Budget MTP 2021-2023.
- Updates on DNB and AFM letters, discussions and on-site visits, including DNB 'Focus' reports and meetings and AFM annual report and meeting.
- Developments with regard to COVID-19 pandemic. The Supervisory Board is being kept informed of the measures Aegon Nederland is taking to prioritize the health and wellbeing of its employees and customers.

- New ways of working, Smart Working, as result of the COVID-19 pandemic.
- Evaluation of system of governance.

The coronavirus outbreak has introduced new uncertainty, and the Supervisory Board is being kept informed of the measures Aegon Nederland is taking to prioritize the health and wellbeing of its employees and customers.

3. Gender diversity

Enhancing gender diversity in the Board of Directors and Supervisory Board is an important issue for Aegon Nederland. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into account in view of its aim of having a balanced Board of Directors composition. When identifying candidates for open positions, the Board of Directors actively searches for suitable female candidates. It also instructs external search firms to present female candidates.

4. Risk and Audit Committee

The Supervisory Board has formed a Risk and Audit Committee, whose members in 2020 were Mr. Vrancken (chair), Mrs. Jansen Heijtmajer and Mr. Jacobovits de Szeged. In 2020, the Risk and Audit Committee met five times. The CEO, CFO, COO, CTTO and CRO (Mr. Edixhoven, Mr. Magid, Mr. Hekstra, Mrs. Schlichting and Mr. Horstmann) attended meetings on behalf of Aegon Nederland, along with Internal Audit, and managers of Balance Sheet Management, Financial Information Management & Reporting Office and the Actuarial, Risk and Compliance function holders (or their substitutes). On behalf of PricewaterhouseCoopers Accountants N.V., Mrs. Korver-Heins and Mr. Vermeulen both attended the quarterly meetings.

On the agenda for the regular quarterly meetings, standing items were (i) the financial results of the quarter, (ii) quarterly reports on capital management, and (iii) regulatory developments, supplemented with quarterly reports from (iv) Risk Management & Compliance, and (v) Internal Audit, and the PricewaterhouseCoopers Accountants N.V. quarterly reports. The Risk and Audit Committee and the Supervisory Board approved the audit plan of Internal Audit and considered the audit plan of PricewaterhouseCoopers Accountants N.V., and discussed the Aegon Nederland Risk Appetite. Other topics discussed during 2020 included among others the annual reports, RSR, ORSA, SFCR reports, developments related to Solvency II, in particular capital ratio, developments related to Covid-19, Actuarial Function Holder Report, SOx controls and the Management Letter. The Risk and Audit Committee reported – partly through the minutes of its meetings – on its findings to the Supervisory Board.

5. Remuneration Committee

The Remuneration Committee, members Mrs. Jansen Heijtmajer and Mrs. Hoek, convened in February and March 2020. In its meetings, the Committee and subsequently the Supervisory Board approved:

- the 2019 Aegon Nederland variable compensation company targets results,
- the 2020 Aegon NL variable compensation company performance indicators and target setting,
- the performance of, and the allocation of variable compensation 2019 to participants (MT-NL members and Statutory Board of Aegon Bank), and the pay-out of deferred 2016-2018 variable compensation,
- the 2020 Aegon MT-NL variable compensation individual performance indicators and target setting,
- the selection of the 2021 (Group) Material Risk Takers and Material Risk Takers (Aegon Netherland and its subsidiaries) and Identified Staff (Aegon Bank).

6. Members of the Supervisory Board

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

Name	Year of first appointment	(Re-) Appointment	Resigns
Mrs. D. Jansen Heijtmajer	2016	August 4, 2020	2024
Mrs. M.J.E. Hoek	2019	May 13, 2019	2023
Mr. G.T. Kepecs	2012	June 30, 2017	2021
Mr. D.F.R. Jacobovits de Szeged	2018	January 1, 2018	2022
Mr. G.J.M. Vrancken	2019	January 1, 2019	2023

The Hague, April 8, 2021

The Supervisory Board,

D. Jansen Heijtmajer (chair)	
G.J.M. Vrancken	
M.J.E. Hoek	
G.T. Kepecs	
D.F.R. Jacobovits de Szeged	

Consolidated financial statements 2020 of Aegon Nederland N.V.

Consolidated statement of financial position

Amounts in EUR million	Note	31-12-2020	31-12-2019
Cash and cash equivalents	5	4.958	9.032
Investments	6	70.397	61.362
Investments for account of policyholders	7	23.130	23.190
Derivatives	8	10.005	8.331
Investments in associates	9	1.004	106
Investments in joint ventures	10	327	1.159
Loans and group loans	11	1.020	913
Reinsurance assets		29	29
Deferred tax assets	24	-	87
Deferred expenses	12	135	360
Other assets and receivables	13	2.359	2.466
Intangible assets	14	174	152
Total assets		**113.539**	**107.189**
Equity and liabilities			
Shareholders' equity	15	6.961	6.775
Non-controlling interests	15	15	15
Group equity		**6.976**	**6.790**
Insurance contracts	16	44.242	40.554
Insurance contracts for account of policyholders	17	25.085	25.328
Savings deposits	19	12.540	11.517
Investment contracts	20	191	199
Derivatives	8	7.736	7.917
Borrowings and group borrowings	21	10.868	8.885
Provisions	22	106	74
Defined benefit liabilities	23	3.718	3.479
Deferred tax liabilities	24	277	-
Other liabilities and accruals	25	1.800	2.445
Total liabilities		**106.563**	**100.399**
Total equity and liabilities		**113.539**	**107.189**

Consolidated income statement

(for the year ended December 31, 2020)

Amounts in EUR million	Note	2020	2019
Revenues			
Premium income	26	1.994	2.117
Investment income	27	2.088	2.231
Fee and commission income	28	255	237
Total revenues		**4.337**	**4.585**
Income from reinsurance ceded	29	-100	-2
Results from financial transactions	30	3.539	5.822
Other income	31	8	115
Total income		**7.783**	**10.520**
Charges			
Premiums paid to reinsurers	26	63	32
Policyholder claims and benefits	32	5.953	8.942
Profit sharing		-	9
Commissions and expenses	33	862	906
Impairment charges / (reversals)	34	107	165
Interest charges and related fees	35	124	138
Other charges	36	46	-
Total charges		**7.154**	**10.192**
Income before share in profit / (loss) of joint ventures and associates and tax		**628**	**327**
Share in profit / (loss) of associates	9	80	-1
Share in profit / (loss) of joint ventures	10	19	125
Income / (loss) before tax		**727**	**452**
Income tax	37	-189	-102
Net income / (loss)		**538**	**349**
Net income / (loss) attributable to the parent company		**538**	**349**

Consolidated statement of comprehensive income

(for the year ended December 31, 2020)

Amounts in EUR million	Note	2020	2019
Net income		**538**	**349**
Items that will not be reclassified to profit or loss:			
Changes in revaluation reserve real estate held for own use	13.1	-	2
Remeasurement of defined benefit plans	23	-285	-466
Income tax relating to items that will not be reclassified	24	125	115
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	15.3	25	-502
Equity movements of associates	9	2	-2
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	15.3	-18	-239
Income tax relating to items that may be reclassified	15.3	-27	171
Other		1	-
Total other comprehensive income / (loss)		**-177**	**-921**
Total comprehensive income / (loss)		**361**	**-572**
Total comprehensive income / (loss) attributable to the parent company		**361**	**-572**

Consolidated statement of changes in equity

Amounts in EUR million

2020	Share capital	Share premium	Revaluation reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Group equity
At January 1	24	1.817	811	4.123	6.775	15	6.790
Net income / (loss) recognized in the income statement	-	-	-	538	538	-	538
Other comprehensive income / (loss)	-	-	-18	-159	-177	-	-177
Total comprehensive income / (loss)	**-**	**-**	**-18**	**379**	**361**	**-**	**361**
Addition to share premium	-	-	-	-	-	-	-
Dividends paid on common shares	-	-	-	-175	-175	-	-175
At December 31	**24**	**1.817**	**793**	**4.327**	**6.961**	**15**	**6.976**

2019	Share capital	Share premium	Revaluation reserves	Retained earnings	Shareholders' equity	Non-controlling interests	Group equity
At January 1	24	1.742	1.381	4.126	7.272	15	7.287
Net income / (loss) recognized in the income statement	-	-	-	349	349	-	349
Other comprehensive income / (loss)	-	-	-570	-351	-921	-	-921
Total comprehensive income / (loss)	**-**	**-**	**-570**	**-2**	**-572**	**-**	**-572**
Addition to share premium	-	75	-	-	75	-	75
Dividends paid on common shares	-	-	-	-	-	-	-
At December 31	**24**	**1.817**	**811**	**4.123**	**6.775**	**15**	**6.790**

Refer to note 8.2 ‘Statement of changes in equity’ in the statutory financial statements for information on capital restrictions and legal reserves.

Consolidated cash flow statement

(for the year ended December 31, 2020)

Amounts in EUR million	Note	2020	2019
Income / (loss) before tax		**727**	**452**
Results from financial transactions	30	-3.577	-5.822
Amortization and depreciation	33	115	97
Impairment losses	34	86	165
Income from joint ventures	10	-19	-125
Income from associates	9	-80	1
Income from reinsurance ceded	29	132	-
Change in provisions	22	32	31
Adjustments of non-cash items		**-3.311**	**-5.653**
Insurance and investment liabilities	16/19/20	3.679	5.694
Insurance liabilities for account of policyholders	17	-243	1.343
Defined benefit liabilities	23	-45	-20
Accrued expenses and other liabilities	25	-615	750
Deferred expenses	12	225	-360
Accrued income and prepayments	13	355	-739
Shadow accounting		-1.015	-1.725
Changes in accruals		**2.340**	**4.943**
Purchase of investments (other than money market investments)	6	-14.896	-8.581
Purchase of derivatives	8	1.127	-
Disposal of investments (other than money market investments)	6	7.009	7.120
Disposal of derivatives	8	-546	1.288
Net disposal / (purchase) of investments for account of policyholders	7	943	1.581
Net change in cash collateral	25	-76	75
Cash flow movements on operating items not reflected in income		**-6.439**	**1.483**
Tax (paid) / received	37	-66	-67
Other		-19	-19
Net cash flows from operating activities		**-6.767**	**1.138**

	Note	2020	2019
Purchase of individual intangible assets	14	-31	-23
Purchase of equipment and real estate for own use	13	-6	-7
Acquisition and capital contribution joint ventures and associates	9/10	-66	-120
Disposal joint ventures and associates	9	5	1
Dividend received from joint ventures and associates	10	67	56
Net cash flows from investing activities		**-31**	**-93**
Loans to group related parties	11	-109	-353
Repayment of loans by group related parties	11	3	22
Proceeds from borrowings	21	1.241	1.460
Repayment of borrowings	21	-1.799	-1.075
Proceeds from group borrowings	21	2.541	1.024
Repayment of group borrowings	21	-	-106
Additions to entrusted savings	19	15.516	12.566
Redemption of entrusted savings	19	-14.492	-11.634
Dividends paid	15	-175	-
Addition to share premium	15	-	75
Net cash flows from financing activities		**2.723**	**1.978**
Net increase / (decrease) in cash and cash equivalents		**-4.075**	**3.023**
Cash and cash equivalents at the beginning of the year	5	9.033	6.010
Cash and cash equivalents at the end of the year		**4.958**	**9.033**

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)	1.832	1.947
Interest paid (excluding derivatives)	127	144
Interest derivatives received / (paid)	-6	50
Dividend received	212	239

Reconciliation of liabilities arising from financing activities

For both 2020 and 2019 the net cash flows from financing activities relate to the increase or decrease in long-term borrowings, group loans, entrusted savings, repurchase agreements and share premium payments. There was no effect from foreign currencies, as all financing activities take place in EUR. Furthermore the carrying value of all balance sheet items related to financing activities are measured at amortized cost, therefore there are no effects from fair value movements or any other movements.

Notes to the consolidated financial statements

1. General information

Aegon Nederland N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Trade Register of the Chamber of Commerce in The Hague with its registered address at Aegonplein 50, 2591 TV, The Hague with registration number KvK 27111251. Aegon Nederland N.V. ('Aegon Nederland') is wholly owned subsidiary of Aegon Europe Holding B.V. in The Hague. Aegon N.V., also domiciled in The Hague is the ultimate parent of the group.

Aegon Nederland (or 'the Company') and its subsidiaries ('Aegon' or 'the Group') are active in life insurance and pensions operations, savings and investment products, asset management operations, accident and health insurance, general insurance, banking operations, mortgages, pension administration and intermediary activities.

2. Significant accounting policies

2.1. Basis of presentation

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

The 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 million 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, goodwill, policyholders claims and benefits, insurance contracts and guarantees (including the liability adequacy test, or LAT), pension plans, corporate income taxes and the potential effects of resolving litigation matters. Aegon Nederland applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the European Union (EU) 'carve out' of IFRS.

Company financial statements

The company's financial statements of Aegon Nederland 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 Nederland, article 402, Book 2 of the Dutch Civil Code has been applied, allowing a condensed format.

Going concern

The consolidated financial statements of Aegon Nederland have been set up assuming a going concern basis of accounting based on the reasonable assumption that Aegon Nederland 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 Nederland 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 by the entity			
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	June 1, 2020	Yes	Low

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

2.1.2. 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 Nederland, 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	See below for comments
IFRS 9 Financial instruments	January 1, 2018 *	Yes	No	See below for comments
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019 *	Yes	No	See below for comments
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts)	January 1, 2021*	Yes	No	See below for comments
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

(*) The amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, issued in September 2016, allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 (and linked amendments 'Amendment to IFRS 9 Financial instruments on prepayment features with negative compensation'). The amendments to IFRS 4 are further explained below.

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

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

On June 25, 2020, the IASB decided, application subject to EU endorsement process, to defer the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. As a consequence of the IFRS 17 deferral, the IASB also agreed to revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4 to allow entities to continue applying the temporary exemption from IFRS 9 until January 1, 2023.

An entity is eligible to apply for the temporary exemption if the carrying amount of its liabilities connected with insurance activities is;

- greater than 90% of the total carrying value of all liabilities; or
- between 80% and 90% of the total carrying value of all liabilities, and the insurer does not have significant activities unrelated to insurance.

Aegon Nederland performed this analysis at December 31, 2015, and determined that 84% of its liabilities are connected to insurance activities. The 16% non-insurance activity related liabilities are mainly caused by the banking activities of subsidiary Aegon Bank and mortgage activities of subsidiary Aegon Hypotheken.

As a consequence Aegon Nederland assessed other quantitative (%equity, %net income, %employees) and qualitative factors (such as that the regulatory status of parent company is insurer and falls under insurance supervision of DNB). Based on that assessment Aegon Nederland concluded that it meets the requirements for the temporary exception. There are no (significant) changes in the activities of Aegon Nederland since the performance of this analysis. As a result, Aegon Nederland elected to defer implementation of IFRS 9 until January 1, 2023.

Aegon Nederland has determined that it does not engage in significant activities unconnected with insurance based on an assessment of mainly the following factors:

- its main subsidiaries, Aegon Levensverzekering, Aegon Spaarkas and Aegon Schadeverzekering, are all regulated insurance entities;
- its non-insurance subsidiaries, Aegon Bank and Aegon Hypotheken comprise a small portion of equity and a small portion of its workforce (all below 10%); and
- Aegon Nederland is a subsidiary of Aegon N.V., classified as a Global Systemic Important Insurer, and is therefore considered an insurer from a prudential supervision perspective

As Aegon Nederland defers the application of IFRS 9 (including linked amendments as included in the above table), the full impact of the standard is not yet clear, however an initial impact assessment resulted in the expectation that it will have a significant impact on shareholders' equity, income and/or other comprehensive income and disclosures. The implementation project is combined with the implementation of IFRS 17 Insurance Contracts.

By qualifying for and electing the temporary exemption, the IFRS 4 amendment requires certain additional disclosures; specifically, Aegon Nederland is required to disclose information to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. This information is presented below:

Fair value changes
The table below presents an overview of the fair value of the classes of financial assets as of December 31, 2020, as well as the change in fair value during the reporting period. The asset classes are divided into two categories:

i. SPPI: assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount , excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis; and,
ii. Other: all financial assets other than those specified in SPPI:
    a) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
    b) that meet the definition of held for trading in IFRS 9; or,
    c) that are managed and whose performance are evaluated on a fair value basis.

		Fair value 31-12-2020	**Change in FV 2020**	**Fair value 31-12-2019**	**Change in FV 2019**
Debt securities	SPPI	25.909	928	19.533	1.050
	Other	709	-25	68	-
Mortgage loans	SPPI	33.761	-264	33.111	494
	Other	-	-	-	-
Private loans	SPPI	5.243	213	5.109	284
	Other	-	-	-	-
Other financial assets*	SPPI	1	-	46	-
	Other	124	-	266	-
Loans and group loans	SPPI	1.020	-	913	-
	Other	-	-	-	-
Total		**66.766**	**853**	**59.047**	**1.827**

* Other financial assets consist of deposits with financial institutions, policy loans and other investments. Policy loans and other investments do not pass the SPPI test.

Cash and cash equivalents, deposits with financial institutions, and receivables all pass the SPPI test and are held at amortized cost, whereby the amortized cost is assumed to approximate fair value due to the short-term nature of the assets.

The fair value at the end of the reporting period in the table reconciles to the respective table in note 38 'Fair value of assets and liabilities'.

Credit risk
The table below details the credit risk rating grades, as of December 31, 2020, for financial assets with cash flows that are SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis. The tables show the carrying value of those financial assets applying IAS 39 (in the case of financial assets measured at amortized cost, before adjusting for any impairment allowances).

2020	Debt securities	Mortgage loans	Private loans	Other financial assets	Loans and group loans	Total
AAA	14.281	-	1.913	-	-	16.195
AA	4.908	-	74	-	-	4.982
A	3.950	-	46	-	1.020	5.016
BBB	2.575	-	1.098	-	-	3.672
BB	125	-	46	-	-	171
B	61	-	-	-	-	61
CCC or lower	9	-	-	-	-	9
Without external rating (not rated)	-	30.591	1.142	125	-	31.859
Total	**25.909**	**30.591**	**4.320**	**125**	**1.020**	**61.965**

2019	Debt securities	Mortgage loans	Private loans	Other financial assets	Loans and group loans	Total
AAA	13.248	-	1.799	-	-	15.046
AA	4.266	-	82	-	-	4.348
A	1.249	-	47	-	913	2.209
BBB	734	-	970	-	-	1.704
BB	36	-	49	-	-	84
B	-	-	-	-	-	-
CCC or lower	-	-	-	-	-	-
Without external rating (not rated)	-	29.567	1.495	312	-	31.374
Total	**19.533**	**29.567**	**4.440**	**312**	**913**	**54.766**

As no external ratings are available for Aegon Nederland's mortgage loans, the full portfolio is included under 'Not rated'.

For assets that do not have low credit risk and of which cash flows represent SPPI (rated BB or below), excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides the credit risk exposure from the financial assets held by Aegon Nederland. The financial assets are categorized by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

	Carrying amount 31-12-2020	Fair value 31-12-2020	Carrying amount 31-12-2019	Fair value 31-12-2019
Debt securities	199	195	35	36
Private loans	46	47	49	50
Total	**246**	**242**	**84**	**86**

Given the absence of external ratings for Aegon Nederland's mortgage portfolio, non-performing mortgage loans are included in the table above to reflect exposure to mortgage loans that do not have low credit risk. Non-performing is defined as more than 90 days past due in line with regulatory guidelines.

Given the absence of external ratings for Aegon Nederland's mortgage portfolio, IFRS 9 staging is applied to indicate whether a mortgage loan does not have low credit risk in the table above. As such, a mortgage loan is determined to not have low credit risk when there has been a significant increase in credit risk since initial recognition (Stage 2) or when it is in default (Stage 3).

Subsidiaries, joint ventures and associate applying IFRS 9 in their statutory accounts
Principal subsidiaries, namely Aegon Bank and Aegon Hypotheken, are for statutory purposes not allowed to defer implementation of IFRS 9. Information on the application of IFRS 9 by these entities can be found in the their statutory annual reports which are available on www.aegon.nl.

Aegon Nederland applies the exemption under IFRS 4 from certain requirements in IAS 28 for its joint ventures in Amvest entities and the associate Amvest Residential Core Fund. Under this exemption, Aegon Nederland applies IAS 39 under the temporary exemption from applying IFRS 9. When accounting for the investment in Amvest entities under the equity method, the IAS 39 figures of Amvest are used. There are no differences between the IAS 39 and IFRS 9 figures of Amvest. For statutory purposes Amvest cannot elect to defer the effective date of IFRS 9; information on the adoption of IFRS 9 for Amvest can be found in their respective statutory annual reports. Except Amvest, Aegon Nederland does not hold any other individually material joint ventures nor associates.

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

On June 25, 2020, the IASB decided, application subject to EU endorsement process, to defer the effective date of IFRS 17 to annual reporting periods beginning on or after January 1, 2023. As a consequence of the IFRS 17 deferral, the IASB also agreed to revise the fixed expiry date of the temporary exemption from IFRS 9 in IFRS 4 to allow entities to continue applying the temporary exemption from IFRS 9 until January 1, 2023.

The Standard represents a fundamental change to current financial reporting and the implementation effort is significant. Early adoption of the standard is therefore not expected. An implementation project was started soon after the publication of the new Standard. Based on the final amendments of June 2020 quantitative assessments are performed and expected to continue during 2021. The outcome of these quantitative assessments will form the basis for final methodology and policy choices. The impact of the initial application on Aegon Nederland's financial statements is expected to be significant.

Interest rate benchmark reform
In 2019, Aegon Nederland 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 Nederland 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 Nederland in 2020 because Aegon Nederland did not early adopt these amendments. Aegon Nederland continues to follow the status of the IBOR reform, and will assess the impact for Aegon Nederland when further information becomes available.

2.2. Basis of consolidation

2.2.1. Investment funds

Investment funds managed by Aegon Nederland in which Aegon Nederland holds an interest are consolidated in the financial statements if Aegon Nederland has power over that investment fund and it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, all interests held by Aegon Nederland in the fund are considered, regardless of whether the financial risk related to the investment is borne by Aegon Nederland or by the policyholders.

In determining whether Aegon Nederland has power over an investment fund all facts and circumstances are considered, including the following:

- Control structure of the asset manager (i.e. whether an Aegon Nederland subsidiary);
- The investment constraints posed by investment mandate;
- Legal rights held by the policyholder to the separate assets in the investment vehicle (e.g. policyholders could have the voting rights related to these investments);
- The governance structure, such as an independent board of directors, representing the policyholders, which has substantive rights (e.g. to elect or remove the asset manager);and
- Rights held by other parties (e.g. voting rights of policyholders that are substantive or not).

Exposure or rights to variability of returns can be the result of, (for example):

- General account investments of Aegon Nederland;
- Aegon Nederland's investments held for policyholders;
- Guarantees provided by Aegon Nederland on return of policyholders in specific investment vehicles;
- Fees dependent on fund value (including, but not limited to, asset management fees); and
- Fees dependent on performance of the fund (including, but not limited to, performance fees).

Aegon Nederland concluded, for all investment funds, that it does not exercise control, as Aegon Nederland has no power over the asset manager (key decision maker).

Participations in investment funds held for general account are recognized as equity investments. Investments in venture capital entities, mutual funds and investment funds are managed on the basis of market value and accounted for as financial assets at fair value through profit or loss. Participations in investment funds are regarded as part of the investment portfolio. The income from these investment funds is recognized as investment income.

Participations in investment funds held for account of policyholders are accounted for as 'investments for account of policyholder' and measured at Fair Value Through profit or loss.

2.2.2. Subsidiaries

Subsidiaries (including structured entities) are entities over which Aegon Nederland has control. Aegon Nederland controls an entity when Aegon Nederland 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 Nederland 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 Nederland. 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 Nederland in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair values of the assets, liabilities and contingent liabilities, acquired in the business combination, have been determined provisionally, adjustments to these values, resulting from the emergence of new evidence within twelve months after the acquisition date, are made against goodwill. Aegon Nederland 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.

2.2.3. 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 Nederland 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 Nederland 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 Nederland.

Structured entities that are not consolidated include general account investments in non-affiliated structured entities that are used for investment purposes.

2.3. Foreign exchange translation

The consolidated financial statements are presented in euro, which is Aegon Nederland's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Aegon Nederland does not have investments in subsidiaries of which the functional currency is not the euro.

At the reporting date, monetary assets and monetary liabilities in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, while assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

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

2.4. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon Nederland 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.

2.5. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from date of acquisition that are readily convertible to known cash amounts. They are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

2.6. Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and investments in investment funds.

2.6.1. Financial assets, excluding derivatives

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

Classification

The following financial assets are measured at fair value through profit or loss (FVTPL): financial assets held for trading, financial assets managed on a fair value basis in accordance with the investment strategy of Aegon

Nederland; and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Nederland designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

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

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

Measurement

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

Loans are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

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

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics.

The valuation techniques that include unobservable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset's cash flows expire or when Aegon Nederland 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 Nederland has neither transferred nor retained significantly all the risk and rewards and retained control are recognized to the extent of Aegon Nederland'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.

Securities lending and repurchase agreements

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

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

Collateral

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

2.6.2. Real estate

Investments in real estate include property held to earn rentals or for capital appreciation, or both. Investments in real estate are presented as 'Investments'. Property that is occupied by Aegon Nederland and that is not intended to be sold in the near future is classified as real estate held for own use and is presented in 'Other assets and receivables.'

All property is initially recognized at cost (including purchase expenses like transfer tax, broker fees, civil notary, if applicable). Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement.

Investments in real estate are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognized in the income statement in the year of exderecognition.

Investment property is revalued periodically by external valuators. The revaluations are performed by independent valuators who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment property being valued.

Fair value is based on quarterly external appraisals and updates of the appraised portfolio by independent external appraisers, based on the MSCI guidelines. The full portfolio is externally appraised every quarter. A representative part of 25% of the total portfolio is appraised by a full valuation, and the remaining portfolio (75%) is updated at the same time using a desktop valuation. The appraisals are based on both the yield method (BAR/NAR[2]) and a DCF calculation with an average discount rate of 5.1% (2019: 5.4%). The yield method on MSCI guidelines is based on:

- cash flows estimated on the basis of market rent;
- allowable deductions for owners' charges in line with market conditions;
- capitalization at net initial yields (minus purchasing costs payable by the purchaser) of similar transactions;
- adjusting entries for (initial) vacancy, overdue maintenance, and future renovations. Investments made in existing properties since the last appraisal was carried out are capitalized at cost price in addition to the carrying amount of the investment until the next appraisal. In the income statement, changes in fair value are recorded as gains / (losses) on investments.

[2] Bruto Aanvangsrendement/ Netto Aanvangsrendement

Maintenance costs and other subsequent expenditure
Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

Property under construction
Aegon Nederland is involved in developing property activities with the intention to hold it as investments in real estate.

Property under construction is initially valued at directly attributable costs, plus a premium on the amount invested to cover internal expenses. Upon completion, the property is carried at fair value, or at an earlier time when the fair value can be determined reliably.

2.7. Investments for account of policyholders

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

2.8. Derivatives

2.8.1. 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.

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

2.8.2. 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.

2.8.3. Hedge accounting

As part of its asset liability management, Aegon Nederland 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 Nederland 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 Nederland 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 Nederland 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).

2.9. Investment in joint arrangements and associates

2.9.1. Joint arrangements

Joint arrangements are contractual agreements whereby Aegon Nederland undertakes with other parties an economic activity that is subject to joint control. Joint control exists when it is contractually agreed to share control over an economic activity. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Aegon Nederland has assessed the nature of its joint arrangements and determined them to be joint ventures. Investments in joint ventures are accounted for using the equity method (see below),after initially being recognized at cost in the consolidated balance sheet.

On disposal of an interest in a joint venture, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.9.2. Associates

Associates are all entities over which Aegon Nederland has significant influence but not control. Significant influence generally results from a shareholding of 20% or more of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

- Representation on the board of directors
- Participation in the policy making process
- Interchange of managerial personnel

Entities over which Aegon Nederland has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary, are accounted for using the equity method. Interests held by Aegon Nederland in venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by Aegon Nederland in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Investments in associates are accounted for using the equity method (see below), after initially being recognized at cost in the consolidated balance sheet.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.9.3. Equity method

Under the equity method of accounting, the investments are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If joint ventures and associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the share of Aegon Nederland in the net assets of the joint venture or associate and is subject to impairment testing. The net assets are determined based on the accounting policies of Aegon Nederland. Any gains and losses recorded in other comprehensive income by the joint venture or associate are recognized in other comprehensive income and reflected in the revaluation reserves in shareholders' equity, while the share in the joint venture's or the associate's net income is recognized as a separate line item in the consolidated income statement. The share in losses of Aegon

Nederland is recognized until the investment in the joint ventures' or associate's equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between Aegon Nederland and the joint ventures and associates are eliminated to the extent of the interest in the entity of Aegon Nederland, with the exception of losses that are evidence of impairment, which are recognized immediately.

2.10. Deferred expenses

2.10.1. Deferred Policy Acquisition Costs (DPAC)

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

2.10.2. Deferred cost of reinsurance

A deferred cost of reinsurance is established when Aegon Nederland enters into a reinsurance transaction, except for reinsurance transactions that are entered into as part of a plan to exit a business. When Aegon Nederland enters into a reinsurance contract as part of a plan to exit a business, an immediate loss is recognized in the income statement. Upon reinsurance, Aegon Nederland is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported in the consolidated statement of financial position during the contractual term of the underlying contracts. The difference, if any, between amounts paid in a reinsurance transaction and the amount of the liabilities relating to the underlying reinsured contracts is part of the deferred cost of reinsurance. When losses on buying reinsurance are deferred, the amortization is based on the assumptions of the underlying insurance contracts, i.e. the percentage of premium paid on the reinsurance contract. The amortization is recognized in the income statement.

2.11. Other assets and receivables

Other assets and receivables include real estate held for own use, equipment, trade and other receivables, and prepaid expenses. Trade and other receivables and prepaid expenses are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Equipment is initially carried at cost, depreciated on a straight line basis over its useful life to its residual value and is subject to impairment testing.

2.11.1. Real estate held for own use

Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated.

Real estate held for own use is revalued at least once in three years, based on appraisals by independent external valuators. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Revaluation of real estate for own use is recognised in other comprehensive income and accumulated in revaluation reserve in equity. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

2.12. Intangible assets

2.12.1. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and is measured as the positive difference between the consideration transferred to acquire the business and the Aegon Nederland's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary is disposed.

2.12.2. Software and other intangible assets

Software and other intangible assets, such as Value of Business acquired (VOBA), are recognized to the extent that the assets can be identified, are controlled by Aegon Nederland, are expected to provide future economic benefits and can be measured reliably.

Software and other intangible assets with finite useful lives are measured at cost. less accumulated amortization and any accumulated impairment losses. Amortization of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The amortization period and pattern are reviewed at each reporting date, with any changes recognized in the income statement. An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.13. Impairment of assets

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

2.13.1. Impairment of non-financial assets

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

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

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

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

2.13.2. Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows.

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

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss.

Impairment losses can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized.

2.13.3. Impairment of equity instruments

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

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

If an available-for-sale equity security is impaired, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Impairment losses on equity instruments cannot be reversed.

2.14. Equity

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

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

2.15. Insurance contracts

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

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

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

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

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

and if it is probable that the economic benefits associated with the transaction will flow to the entity. In the unlikely event of an onerous contract, this contract is to be recognized at the earliest date of:

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

2.15.1. Life insurance contracts

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

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

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

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

In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.15.4 'Embedded derivatives' or, if bifurcated from the host contract, as described in note 2.8 'Derivatives'.

2.15.2. Deferred interest contracts

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

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

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

2.15.3. Life insurance contracts for account of policyholders

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

2.15.4. Embedded derivatives

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

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

2.15.5. Shadow accounting

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

2.15.6. Non-life insurance contracts

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the coverage period of the premium and is recognized as premium income on a linear basis.

Deferred acquisition expenses with respect to the non-life insurance contracts represents directly attributable costs that are related to the selling, underwriting and initiating of these insurance contracts. Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on the remaining duration of related non-life contracts with an average remaining amortization period of less than one year. The deferred acquisition expenses are included in the non-life insurance liabilities, under 'Unearned premiums and unexpired risks'.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation.

Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied when measuring these insurance liabilities when there is a high level of certainty concerning the amount and settlement term of the cash outflows.The margin for risk represents the cost of capital held for un-hedgeable financial and underwriting risks.

The insurance liability for periodic payments ('Arbeidsongeschiktheidsverzekering' (AOV)) is calculated on an 'item by item' basis. For AOV Individual contracts, the liability is discounted at a 3% discount rate. For the WIA products, the liability is discounted using the LAT curve plus 50% liquidity premium.

2.15.7. Liability Adequacy Test

Liability Adequacy Test (LAT) with respect to life insurance contracts
At each reporting date, the adequacy of the life insurance liabilities (including life insurance contracts for account of policyholders), net of value of business acquired and deferred expenses, is assessed. The liability is considered to be "adequate" if the current estimate of all contractual future cash flows is less than the insurance liability plus the difference between carrying value and fair value of certain investments.

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

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

Aegon Nederland adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of the assets that are measured at amortized cost in the statement of financial position. Only differences between the fair value and the book value build up during the period when the asset were allocated to the insurance portfolio are included in the LAT.

To the extent that the account balances are insufficient to meet future benefits and expenses, we apply in principle shadow loss recognition. Any remaining deficiency is recognized in the income statement, either by impairing the DPAC and VOBA or by establishing an insurance liability for the entire remaining deficiency. Additions to the insurance liability under the liability adequacy test can be reversed in subsequent periods when they have proven to be no longer necessary.

The assumptions in the liability adequacy test contain a margin for risk. The risk margin is determined according to the cost of capital method. Only differences between the fair value and the book value build up during the period when the asset were allocated to the insurance portfolio are included in the LAT.

The estimates used in de liability adequacy test, are based on the following items:

- Mortality tables that take into account expected future changes in life expectancy (the Aegon prospective mortality table);
- A swap curve with a liquidity spread, and including an ultimate forward rate (UFR), to discount future cash flows;
- Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation.

Shadow loss recognition
While using market interest rates for the valuation of debt securities will lead to a change in the revaluation reserve and comprehensive income, the result of using the same assumptions on the liabilities could lead to a deficiency in the liability adequacy test that should be recognized in the income statement. The deficiency of insurance liability triggered by a decrease in interest rates is offset against the revaluation reserves to the extent that the revaluation reserve on debt securities will not become negative. If in subsequent periods such a deficiency of the insurance liability is no longer applicable, shadow loss recognition is reversed through the revaluation reserve. See note 3.2 'Valuation of assets and liabilities arising from life insurance contracts' for more information on the applied interest yield and mortality tables.

Liability Adequacy Test with respect to non-life insurance contracts
At each reporting date, the adequacy of the non-life insurance liabilities is assessed. The liability is considered to be "adequate" if the current estimate of all contractual future cash flows is less than the insurance liability plus the difference between carrying value and fair value of certain investments. To the extent that the account balances are insufficient to meet future claims and expenses, additional liabilities are established and included in the liability for non-life insurance.Additions to the insurance liability under the liability adequacy test can be reversed in subsequent periods when they have proven to be no longer necessary.

With respect to AOV group contracts as well as the WIA ('Wet Inkomen en Arbeid') contracts, the claims regarding long-term sick leave (>2 years) are calculated on an 'item by item' based on empirical data and information from the industry and discounted with Aegon Schadeverzekering's LAT curve. The LAT curve is constructed using 6 months swaps until the last liquid point of 30 years.

2.16. Savings deposits

Savings deposits are stated at amortized cost (net of accrued interest). Accrued interest is recognized in the consolidated statement of financial position under 'other liabilities and accruals'. The balances are largely repayable on demand.

2.17. Investment contracts

Contracts that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to Aegon Nederland, and where Aegon Nederland runs the risks associated with the investments, are accounted for as investment contracts. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged, cancelled or substantially modified. Investment contracts are measured at amortized cost.

2.18. Borrowings and group borrowings[3]

Borrowings and group borrowings 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, with the exception of specific borrowings that are measured at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried at fair value as part of a fair value hedge relationship. Borrowings and group borrowings are derecognized when Aegon Nederland's obligation under the contract expires or is discharged or cancelled.

2.19. Provisions

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

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

Onerous contracts

With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable cost of meeting the resulting obligations exceed the expected future economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

2.20. Assets and liabilities relating to employee benefits

2.20.1. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee benefits expected to be settled within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which the service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

2.20.2. Post-employment benefits

Aegon Nederland has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when Aegon Nederland has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset (or liability) is recognized to the extent that the contribution paid exceeds (or fall short of) the amount due for services provided.

Defined benefit plans

The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. In measuring the defined benefit obligation Aegon Nederland uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables.

The benefits are discounted using an interest rate based on the market yield for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future wage inflation, mortality rates and price inflation.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the creditors of Aegon Nederland.

[3] This accounting policy also applies to 'Loans and group loans'.

They are measured at fair value and are deducted from the defined benefit obligation in determining the amount recognized on the statement of financial position.

Assets held by Aegon Nederland backing the retirement benefits do not meet the definition of plan assets and as such were not deducted from the defined benefit obligation. Instead, these assets are recognized as general account assets. Consequently, the expected return on these assets also does not form part of the calculation of defined benefit expenses.

Plan improvements (either vested or unvested) are recognized in the income statement at the date when the plan improvement occurs.

The costs of the defined benefit plans are determined at the beginning of the year. The current year service cost and the net interest on the net defined benefit liability (asset) are recognized in the income statement.

Any employee contributions are deducted from the current year service cost. Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the applicable discount rate. Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest expenses on the defined benefit obligation. Whereby interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the applicable discount rate. The difference between the interest income on plan assets and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset) which are recognized in other comprehensive income are revisited quarterly. Remeasurements of the net defined benefit liability (asset) shall not be reclassified to profit or loss in a subsequent period. Remeasurements of the net defined benefit liability (asset) comprise of the actuarial gains and losses; the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Past service cost is the increase in the present value of the defined benefit obligation for employee service, resulting from a plan amendment or curtailment.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in the income statement when the curtailment or settlement occurs. Gains or losses on curtailments or settlements of a defined benefit plan comprise of the difference between:

- The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
- The settlement price, including any plan assets transferred and any payments made directly by Aegon Nederland in connection with the settlement.

2.20.3. Share-based payments

Aegon Nederland operates share-based plans applicable to the Aegon N.V. Group that entitle employees to receive equity instruments over common shares of the parent company Aegon N.V.

For the share-based plans where employees are granted the conditional right to receive Aegon N.V. common shares if certain performance indicators are met and depending on continued employment of the individual employee, expenses recognized are based on the fair value on the grant date of the shares. The fair value is measured at the market price of the Aegon N.V common shares, adjusted to take into account the non-vesting and market conditions upon which the shares were granted. For example, where the employee is not entitled to receive dividends during the vesting period, this factor is taken into account when estimating the fair value of the shares granted.

The number of shares that will vest partly depend on Aegon N.V.'s relative total shareholder return in comparison with a peer group. For the determination of factors such as expected dividends, market observable data has been considered. In addition, where the relative total shareholder return is included in the performance criteria, this factor represents a market condition and hence is taken into account when estimating the fair value of the shares granted.

All of the share-based plans operated are settled by Aegon Nederland in common shares of Aegon N.V. or in cash and are therefore recognized as cash-settled share based payment transactions.

For these cash settled plans a liability is recognized using the fair value based on the elapsed portion of the vesting period. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

2.21. 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. Aegon Global Investment Fund B.V. is not part of the group of companies included Aegon N.V. tax group. The results from Optas Pensioenen N.V., which has legally merged with Aegon Levensverzekering N.V. as of January 1, 2019, were exempt from paying corporate income tax up to April 1, 2019.

2.21.1. 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 Nederland 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 Nederland 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.

2.21.2. 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 Nederland 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.

2.21.3. Deferred tax assets and liabilities relating to investments in subsidiaries

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if Aegon Nederland is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

2.22. 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.

2.23. 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.

2.24. Premium income

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

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

Unearned premiums are the portion of premiums written in a financial year that relate to risk periods after the reporting date. Unearned premiums are calculated pro rata. The proportion attributable to subsequent reporting periods is recognized in the reserve for unearned premiums.

2.25. Investment income

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

2.26. Fee and commission income

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

2.27. Policyholders claims and benefits

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

2.28. Results from financial transactions

Results from financial transactions include:

- Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.
- 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.
- Gains and losses on real estate (both realized and unrealized) relate to the changes in fair value of the investments in real estate.
- 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. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.
- Net fair value change on financial assets at fair value through profit or loss for account of policyholder includes the fair value movements of investments held for account of policyholders. The net fair value change does not include interest or dividend income.
- Net foreign currency result comprises net foreign currency gains and losses.

2.29. Commissions and expenses

Commissions, staff and administration expenses incurred are allocated to the period to which they relate. Acquisition expenses are deferred to the extent that they are recoverable and subsequently amortized.

2.30. 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.

2.31. 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.

2.32. Leases

As a lessee

Aegon Nederland recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of real estate and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses (using the same rate to measure the lease liability), if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Aegon Nederland's incremental borrowing rate. Generally, Aegon Nederland uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Aegon Nederland's estimate of the amount expected to be payable under a residual value guarantee, or if Aegon Nederland changes its assessment of whether it will exercise a purchase, extension or termination option. Aegon Nederland presents right-of-use assets that do not meet the definition of investment property in 'Other assets and receivables' and lease liabilities in 'Other liabilities and accruals' in the statement of financial position.

Short-term leases and leases of low-value assets

Aegon Nederland has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including small office equipment. Aegon Nederland recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

Where Aegon Nederland is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.33. 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 2.8), goodwill (refer to paragraph 2.12), insurance contracts and guarantees (refer to paragraph 2.15), pension plans (refer to paragraph 2.20), corporate income taxes (refer to paragraph 2.21) and the potential effects of resolving litigation matters (refer to paragraph 2.23).

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

Mortality update and mortality results

For Aegon Nederland's pension and life business the methodology of the population mortality model has been updated triggered by the publication of the new mortality table of the 'Actuarieel Genootschap'. Aegon Nederland added a constant term to the time series for the Dutch deviation from EU-average together with taking EU-NL correlations into account. Due to these changes the assumed convergence of the Dutch deviation to European mortality in both level and trend could be determined more accurately. This results in a decrease on the technical provision of EUR 319 million, an increase in the Liability Adequacy Test (LAT) margin of EUR 410 million and an increase of EUR 729 million in 'Income before tax'.

The positive impact on the technical provision and LAT margin is partly offset by impacts on the longevity reinsurance contracts with Canada Life Reinsurance (-/- EUR 132 million) and the longevity derivative (-/- EUR 56 million).

Aegon Nederland has also refined the valuation methodology for the group pension mortality experience, by differentiating on education. Education level is added to improve the capture of the observed difference in mortality between the reinsured and non-reinsured portfolios. The Aegon Nederland data quality is furthermore improved by enriching it with BRP data ('Basisregistratie personen'). This results in increase of the technical provision of EUR 72 million, a decrease of the LAT margin of EUR 85 million and a decrease of EUR 157 million in the 'Income before tax'.

Besides the above model changes, the population mortality tables and experience factors assumptions have been updated with the most recent available mortality data as part of the regular parameter update process. This resulted in a decrease of the LAT margin of EUR 79 million and similar increase of 'Income before tax'. As no flu season had been observed in 2019, the mortality rates decreased on the short term. The population mortality update also has an effect on the marriage and partner frequencies through the joint survivor probability of main and spouse from the age of retirement. This way, the life expectancy of the partner increases resulting in an increase in liabilities and decrease in 'Income before tax'. COVID-19 has not been taken into account into the assumptions due to too much uncertainty regarding the direction and order of the magnitude of the effects of the virus on the long run. The positive impact on the technical provision and LAT margin is partly offset by impacts on the longevity derivative.

Defined benefit obligation

The Defined Benefit obligations with regards to Aegon staff were affected by the updated withdrawal assumptions, as well as the refinement (differentiating on education) of the valuation methodology for the group pension mortality experience. This results in decrease of the LAT margin and 'Income before tax' of EUR 21 million.

Pensions

For Aegon Nederland's pension business data converters for data from external administrations have been built in 2020 to enable valuations based on actual policy data as opposed to the earlier method of scaling used. This was implemented in 2020 and had an impact -/- EUR 32 million on the LAT margin and 'Income before tax'.

During 2020 Aegon Nederland migrated part of their pension portfolio to TKP Pensioen. Conversions were made for retired members where the spouse pension, based on undetermined spouse was changed to determined spouse. The data was enriched with BRP data, which resulted in a decrease of technical provision of EUR 61 million, an increase of the LAT margin by EUR 45 million and a decrease of EUR 16 million of 'Income before tax'.

Mortgages
Several model and assumption updates have been made with respect to mortgages. Aegon Nederland has developed a separate valuation methodology for its non-Aegon mortgage labels. The valuation methodology is largely based on the Aegon mortgage valuation methodology, but with adjustments for several elements. This resulted in a lower fair value of the mortgages of EUR 16 million and impact of -/- EUR 16 million on the LAT margin and 'Income before tax'.

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 Nederland values the liability side by using CPR parameters rather than lapse parameters. The revised model has an impact of -/- EUR 88 million on 'Income before tax' (through the LAT), of which +/+ EUR 64 million is processed through technical provision and -/- EUR 152 million through the mortgage valuation surplus.

The assumption updates of the best estimate methodology of the mortgages with regards to consumer rates selection and filtering, resulted in an increase of EUR 39 million on the LAT headroom as well as 'Income before tax.

Non life
The Dutch Association of Insurers (Verbond van Verzekeraars') has issued a position paper in April 2020 regarding the fiscal and accounting treatment of the 'inkomensafhankelijke bijdrage Zorgverzekeringswet'. Based on the insights from this new guidance Aegon Schadeverzekering has re-estimated its provisions for WGA-supplement and WGA-Upgrade products, which resulted in an increase of the technical provision and decreasing 'Income before tax' with EUR 15 million.

Expenses
At year-end 2020 the best estimate maintenance costs (ABC costs) models have been refined by methodology changes (on cost base allocation and expense projection). Changes were also made to reduce volatility of the expense provision, by applying a haircut on cost savings included in the cost projection. In addition, the cost base parameters were updated. Impact on LAT margin is -/- EUR 145 million and with a similar decrease on 'Income before tax'.

In the first half year of 2020 an update was made for the non-life insurance products, relating to the expense assumptions of the maintenance costs (ABC costs), increasing the technical provision and decreasing 'Income before tax' with EUR 13 million.

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

The valuation of certain assets and liabilities arising from insurance contracts is developed using complex valuation models. The liability for life insurance contracts with guaranteed or fixed account terms is generally based on current assumptions or on the assumptions established at the inception of the contract. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows, including investment returns. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized through other comprehensive income in the related revaluation reserve in equity.

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

The liability adequacy test uses a discount rate which converges linearly to an Ultimate Forward Rate of 3.65% (2019: 3.65%) from the last liquid point. The uniform last liquid point is set at 30 years.

The discount rate includes a liquidity spread. The rates used to discount the insurance liabilities on Aegon

Nederland's statement of financial position are determined using discount rates as contractually agreed. Insurance liabilities for risk of policyholders are generally shown at the balance sheet value of the related investments.

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

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

Actuarial and economic assumptions

The main assumptions used in measuring the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment returns, future expenses and lapses. Actuarial assumptions are reviewed annually, in the fourth quarter of the calendar year, based on historical observable market data, including market transactions such as acquisitions and reinsurance transactions, anticipated trends and legislative changes. The models and systems used for determining our liabilities are reviewed periodically and, if deemed necessary, updated based on emerging best practices and available technology.

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

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

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

Starting point for the future operational costs is the current level of expenses. For the projection of the operational costs a split is made between fixed and variable expenses. Further it is assumed that a part of the portfolio will be outsourced as soon as outsourcing is more attractive.

Surrender rates depend on product features (e.g. policy duration, fund value and premium) and characteristics of the policy holder (e.g. age). Reliable own experience, as well as available industry wide data, are used in establishing assumptions relating to lapses.

3.3. Valuation of liabilities arising from non-life insurance contracts

The main assumptions used in measuring liabilities for accident and health non-life insurance contracts relate to morbidity (sick leave insurance and recoveries), mortality, expenses and lapses. The main assumptions used for the other non-life branches relate to claims statistics (including incurred but not reported (IBN(E)R)), investment return and future expenses. IBN(E)R claims relate to claims that have occurred but that have not yet been reported to Aegon Nederland as well as claims where the incurred amount is expected not to be enough.

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

Assumptions on morbidity are based on Aegon Nederland's claims history, augmented where necessary with industry information or data from the Dutch Association of Insurers or the Employee Insurances Implementing Agency (UWV). Assumptions on claims statistics are based on Aegon Nederland's claims history, adjusted where necessary for expected benefits inflation.

Assumptions on claims statistics are based on the company's claims history including underwriting risk specific frequency and severity analysis, adjusted where necessary for expected benefits inflation.

Mortality tables are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience.

Starting point for the future operational costs is the current level of expenses. For the projection of the operational costs a split is made between fixed and variable expenses. Further it is assumed that a part of the portfolio will be outsourced as soon as outsourcing is more attractive.

Lapse rates depend on product features, policy duration and external factors such as foreseeable competitor and policyholder behavior. Company experience and data published by the industry are used in establishing the assumptions.

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

The liability adequacy test uses a discount rate which converges linearly to an Ultimate Forward Rate of 3.65% (2019: 3.65%) from the last liquid point. The uniform last liquid point is set at 30 years. The discount rate uses a liquidity spread.

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 38 '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. Whilst Aegon Nederland has seen, in some lines of business, lower premiums and deposits, higher incurred claims and claims handling expenses over 2020, there is currently insufficient credible experience with which to update actuarial assumptions for COVID-19 specifically.

In certain businesses Aegon Nederland has incurred losses related to COVID-19. In the Non-life business, there were EUR 3 million non-life claims from travel insurance due to the COVID-19 crisis. Going forward, Aegon Nederland expects that there will be COVID-19 related deaths allowing the release of reserves for its Pension business.

Impairment assessments were performed where deemed necessary, also as a result of the uncertainty in the market and the impact of COVID-19. Revised sales and earnings projections have been considered in the periodic impairment assessment of non-financial assets. The impact on portfolios of consumer loans and other asset classes 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 Nederland 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. Determination of fair value and fair value hierarchy

The following is a description of Aegon Nederland'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 Nederland 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 Nederland 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 Nederland 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 Nederland, 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 38 'Fair value of assets and liabilities' more information, both quantitative and qualitative is given.

3.6. Goodwill

Goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The recoverable amount is the higher of the value in use and fair value less costs to sell for a cash-generating unit. Impairment testing requires the determination of the value in use or fair value less costs for each of the identified cash generating units of Aegon Nederland. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates.

3.7. Valuation of defined benefit plans

The liabilities or assets recognized in the statement of financial position in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets. Assets held by Aegon Nederland backing the retirement benefits do not meet the definition of plan assets and as such were not deducted from the defined benefit obligation. Instead, these assets are recognized as general account assets.

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, estimated future wage inflation and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

3.8. 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 Nederland 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 Nederland 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.

3.9. Recognition of provisions

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

3.10. Control assessment

In making the assessment whether Aegon Nederland has control over an entity, Aegon Nederland analyses whether it has power over the entity. The outcome of this analysis depends on the purpose and design of the entity, what are the relevant activities (that drive the entity's returns) and how decisions about them are taken and whether rights of the entity give current ability to direct the relevant activities. In performing this assessment, Aegon Nederland has defined the most relevant activity as the ability to determine the strategic policies of an entity. The outcome of the analysis also depends on whether Aegon Nederland is exposed to or has rights to variable returns from its involvement with the entity and whether Aegon Nederland has the ability to use its powers over the entity to affect the amount of its returns. Different assumptions may result in a different outcome of the control assessment.

4. Risk Management

4.1. Enterprise Risk Management

4.1.1. Introduction

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.

4.1.2. Risk Management structure and governance

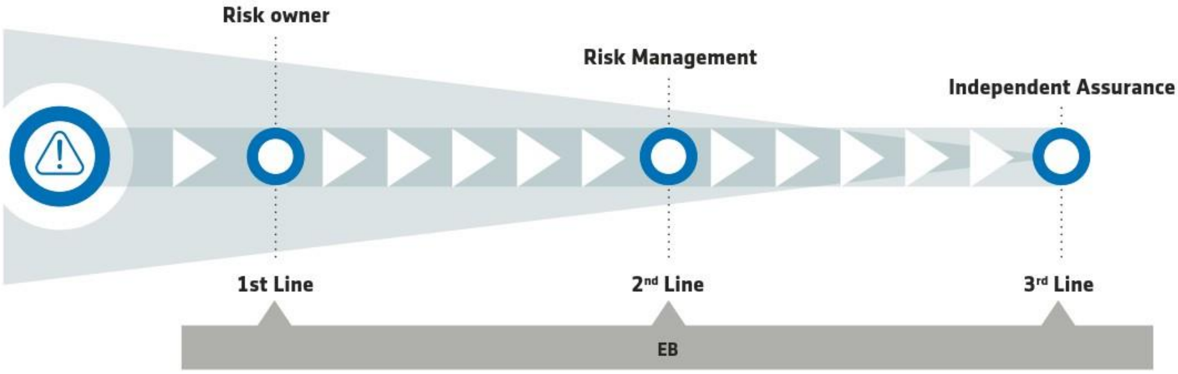
Risk committees

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

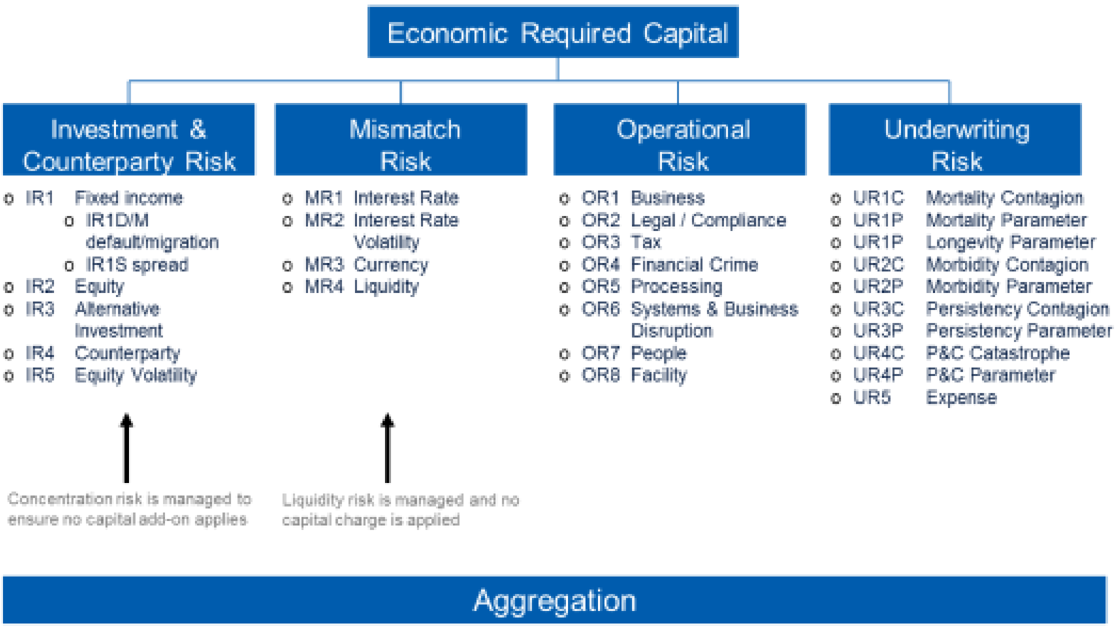
Aegon Nederland's enterprise risk management framework considers risk from various perspectives and can be decomposed into multiple components. However, enterprise risk management is not strictly a serial framework, where one component affects only the next. It is a multidirectional, iterative framework 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'.

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 riskbased 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 4.2.3 Credit risk 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.
Underwriting risk	Underwriting risk relates to the products sold by Aegon Nederland's insurance entities. It is the risk of incurring losses when actual experience deviates from Aegon Nederland's best estimate assumptions on mortality, morbidity, policyholder behavior, claims and expenses.	Aegon Nederland has a preference to selectively grow underwriting risk, but this needs to go hand-in-hand with a strong underwriting process. Aegon Nederland's earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used to price products and establish insurance liabilities. Changes in, among other things, morbidity, mortality, longevity trends and policyholder behavior may have a considerable impact on Aegon Nederland's income. Assumptions used to price products and establish insurance liabilities are reviewed on a regular basis.
Currency exchange rate risk	Aegon Nederland faces limited currency exchange risk on policies denominated in a currency other than the euro.	Currency risk in the investment portfolios is managed using asset liability matching principles and hedged as far as possible.
Inflation risk	Aegon Nederland offers products that cover inflation risk for policyholders.	To hedge the inflation risk, Aegon Nederland invests in financial instruments of which the value depends on the rate of inflation. This significantly reduces Aegon Nederland's net exposure to inflation risk.

Category	Risk description	Measures taken
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. In order to mitigate certain investment risks for investments for account of policyholders with a guaranteed return, Aegon Nederland invests in total return swaps (TRS). These TRSs hedge the movements in the guarantee provision. Under the TRSs, the returns for the account of policyholders on a specified nominal amount are paid out, while the treasury yield on this nominal amount is received. 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.
Catastrophes	The operating results and financial position can be adversely affected by natural and man-made disasters such as hurricanes, riots, fires, explosions, and the risk of a pandemic (such as COVID-19). Furthermore, natural disasters, terrorism and fires could disrupt Aegon Nederland's operations and could result in significant loss of property, substantial personnel losses and the destruction of company and customer information.	Aegon Nederland seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, even with reinsurance, such events could lead to considerable financial loss.
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. IFRS Sensitivities

Results of Aegon Nederland'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 be affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon Nederland'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 Nederland's accounting policies[4]. 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 accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on prudent assumptions. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and equity. Aegon Nederland has classified a significant part of its investment portfolio as 'available-for-sale', which is one of the main reasons why the economic shocks tested have a different impact on net income than on equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked through other comprehensive income to the revaluation reserves in equity, unless impaired.

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 Nederland'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 Nederland'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 premiums and crediting rates. Furthermore, the results of the analysis cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

The sensitivity analysis below solely contains investments for general account and guarantees issued by Aegon Nederland. Investments for risk of policyholders are for the account and risk of third parties and do not lead to an increase in Aegon Nederland's exposures, other than in the form of possible guarantees.

4.2.2. Interest rate risk

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

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

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

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

a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

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

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

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

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

	2020		2019	
Parallel movement of yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	259	603	315	568
Shift down 100 basis points	-541	-1.047	-554	-943

The interest sensitivities, taken into account the impact of the liability adequacy test (LAT), are moving in the same direction as in 2019. Aegon Nederland is exposed to a decrease in interest rates. The interest sensitivity was rebalanced in 2020, resulting in lower interest sensitivities impacts compared to 2019, except for the impact on the IAS 19 provision due to the lower interest curve used, resulting in increased impact on equity.

Due to the current negative headroom position, changes in the LAT margin of Aegon Nederland, triggered by up or down interest shocks, are directly recognized in the income statement. This started to occur in 2019, and did not change per year-end 2020.

Also due to the low interest rates, the LAT deficit significantly increased compared to 2019. As in 2019, the LAT deficit in 2020 cannot be fully compensated by upward shock impacts, resulting in a negative impact on the LAT. This impact is fully offset by a reduction of the market value of the fixed income portfolio. A downward shock would lead to a further increase of the deficit of the LAT, which outweighs the positive impact of the increasing market value of the fixed income portfolio. For the Net income impact on both the upward and downward shock, the difference in impact is primarily due to the difference compared to 2019 that was available for absorption (through revaluation reserve as part of shadow accounting) in the downward scenario. In 2020, this increased as a result of additional investments in primarily corporate bonds out of cash and money market funds, following the updated investment plan.

The increased volatility of equity from both upward and downward shocks is primarily caused by the increased interest sensitivity of the defined benefit liabilities which are valued according to IAS 19 'Employee benefits; the book value of these liabilities increased due to a lower interest curve.

Impact of own credit spread on guarantees
Had the own credit spread been nil, the liability for guarantees would have been EUR 787 million higher (2019: EUR 539 million higher). Refer to note 18.3 'Fair value measurement of guarantees' for more information on the impact of the own credit spread on the guarantees.

4.2.3. Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon Nederland bears the risk for investment performance which is equal to the return of principal and interest. Aegon Nederland is exposed to credit risk on its general account fixed-income portfolio, over-the-counter derivatives and reinsurance contracts. During financial downturns, Aegon Nederland can incur defaults or other reductions in the value of its fixed income portfolio, which could have a material adverse effect on Aegon Nederland's business, results of operations and financial condition. Investments for account of policyholders are excluded as the policyholder bears the credit risk associated with the investments.

The table below shows Aegon Nederland's maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 40 'Transfers of financial assets' for further information on collateral given, which may expose Aegon Nederland to credit risk.

Explanatory notes to the table 'Positions for general account in the balance sheet'

Debt securities
Collateral for structured securities such as ABSs, RMBSs and CMBSs is not included in the table above. Whilst collateral for structured securities is present, the collateral is however related to the cash flows for paying the principal and interest on the securities and not to mitigate credit risk. The credit risk management relating to structured securities is disclosed in the note 4.2.5 'Credit risk concentration'.

Mortgage loans
The real estate collateral for mortgage loans comprises mainly of residential properties. The collateral received for residential mortgages is measured as the foreclosure value which is indexed periodically. Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

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

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

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

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

Aegon Nederland also receives cash collateral or other financial assets for financial assets that have been transferred to another party under reverse repurchase agreements and securities lending transactions. See note 40 'Transfers of financial assets' for more information.

Positions for general account in the balance sheet

2020	Maximum exposure credit risk	Collateral received							Net exposure
Amounts in EUR million		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	6.412	-	-	-	-	-	-	-	6.412
Debt securities	26.618	-	-	-	-	-	-	-	26.618
Mortgage loans *	29.543	2.649	-	45.407	35	-	-18.679	29.412	131
Private loans	4.320	-	-	-	-	-	-	-	4.320
Other loans	25	-	-	-	-	-	-	-	25
Other financial assets	100	-	-	-	-	-	-	-	100
Derivatives with pos. values	10.005	4.270	29	-	-	5.699	-	9.997	8
Loans and group loans	1.020	-	-	-	-	-	-	-	1.020
Reinsurance assets	29	-	-	-	-	-	-	-	29
At December 31	**78.072**	**6.919**	**29**	**45.407**	**35**	**5.699**	**-18.679**	**39.409**	**38.662**

*The base-adjustment of EUR 1,049 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

2019 Amounts in EUR million	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	5.212	-	-	-	-	-	-	-	5.212
Debt securities	19.601	-	-	-	-	-	-	-	19.601
Mortgage loans *	28.799	2.627	-	41.635	43	-	-15.636	28.668	131
Private loans	4.440	-	-	-	-	-	-	-	4.440
Other loans	227	-	-	-	-	-	-	-	227
Other financial assets	85	-	-	-	-	-	-	-	85
Derivatives with pos. values	8.331	1.921	32	-	-	6.346	-	8.299	32
Loans and group loans	913	-	-	-	-	-	-	-	913
Reinsurance assets	29	-	-	-	-	-	-	-	29
At December 31	**67.638**	**4.548**	**32**	**41.635**	**43**	**6.346**	**-15.636**	**36.967**	**30.671**

*The base-adjustment of EUR 768 million has been excluded from the mortgages loans as this is a non-credit risk bearing item.
** Guarantees for mortgage loans refer to the NHG guarantee. The NHG guarantees are subordinated to other collateral and is based on historically realized NHG guarantee payments capped at the maximum loan value.

Credit risk management

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

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

	2020	2019
AAA	270	270
AA	270	270
A	200	200
BBB	135	135
BB	75	75
B	38	38
CCC or lower	15	15

These limits exclude sovereign exposures that are rated A or above. For these exposures Aegon N.V. has set limits which are only applicable and reported at a consolidated Aegon N.V. level[5]. Sovereign exposures (regardless of rating) that are issued by the government of the functional currency of Aegon Nederland's business and also owned in that currency and sovereign exposures that are rated AAA by all three major agencies (S&P, Fitch and Moody's) are exempt from the policy.
The ratings distribution of the general account investments is presented in note 4.2.4 'Credit rating'.

Spread sensitivities

Aegon Nederland is exposed to non-government spreads narrowing, government spread widening and mortgage spreads widening. Exposure to government spread sensitivities is contributed by exposure to spreads widening due to the reduction in value of its fixed income assets. Aegon Nederland is exposed to mortgage spreads widening, which has an adverse impact on the asset valuation.

Furthermore, as a result of the current negative LAT headroom position, future results will become more volatile due to changes in credit spreads as these are not hedged. Please find below the estimated sensitivities on shareholders' equity and on net income of Aegon Nederland for up and down shocks for credit spreads, mortgage spreads for the bond and mortgage portfolio and liquidity premium shocks for general account insurance liabilities:

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

	2020		2019	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Bond credit spread - Shift up 50 bps	-96	-995	-154	-831
Bond credit spread - Shift down 50 bps	87	1.073	148	895
Mortgage spreads - Shift up 50 bps	-453	-453	-451	-451
Mortgage spreads - Shift down 50 bps	481	481	479	479
Liquidity premium - Shift up 5 bps	160	160	101	101
Liquidity premium - Shift down 5 bps	-161	-161	-103	-103

4.2.4. Credit rating

The ratings distribution of general account portfolio of Aegon Nederland, including reinsurance assets, is presented in the next table.

2020	Amortized cost	Fair value	Reinsurance assets	Total 2020
AAA	1.913	14.360	-	16.273
AA	74	6.630	20	6.724
A	46	11.961	3	12.011
BBB	1.098	3.292	-	4.390
BB	46	199	-	245
B	-	75	-	75
CCC or lower	-	14	-	14
Assets not rated	31.759	6.604	6	38.368
Total on balance credit exposure at December 31	**34.936**	**43.135**	**29**	**78.100**
Of which past due and/or impaired assets	213	14	-	226

2019	Amortized cost	Fair value	Reinsurance assets	Total 2019
AAA	1.799	13.328	-	15.126
AA	82	7.062	17	7.161
A	47	6.174	6	6.226
BBB	970	1.275	-	2.245
BB	49	36	-	84
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	31.289	5.355	6	36.650
Total on balance credit exposure at December 31	**34.235**	**33.229**	**29**	**67.493**
Of which past due and/or impaired assets	218	19	-	237

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

4.2.5. Credit risk concentration

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

Credit risk concentration - debt securities and money market investments	2020	2019
ABSs- Collateralized Debt Obligations (CDOs)	1.703	1.050
ABSs- Other	11	73
Residential mortgage backed securities (RMBSs)	165	311
Commercial mortgage backed securities (CMBSs)	12	13
Total investments in unconsolidated structured entities at December 31	**1.891**	**1.447**
Financial - Banking	1.375	277
Financial - Other	575	152
Industrial	5.332	1.609
Utility	277	109
Sovereign exposure	17.168	16.008
At December 31	**26.618**	**19.601**
Of which past due and/or impaired assets	-	-

Credit risk concentration - mortgage loans	2020	2019
Apartment	3.188	3.169
Retail	7	8
Other commercial	25	42
Residential	26.323	25.579
At December 31	**29.543**	**28.799**
Of which past due and/or impaired assets	174	169

Fair value of the mortgage loan portfolio:	2020	2019
Fair value mortgage loans	33.761	33.111
Loan to value (approximately)	67,7%	67,2%
Part of portfolio government guaranteed	45,4%	49,0%
Delinquencies in portfolio (defined as 60 days in arrears)	0,1%	0,1%
Impairments / (reversals) during the year	-1	-5

The breakdown by quality of the available-for-sale (AFS) ABS portfolio of Aegon Nederland is as follows:

Amounts in EUR million	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Total amortized cost**	**Total fair value**
Credit cards	-	-	-	-	-	**-**	**-**
CDOs backed by ABS, corp. bonds, bank loans	1.560	86	32	25	-	**1.702**	**1.703**
Other ABS	2	1	1	7	-	**11**	**11**
At December 31, 2020	1.562	87	33	32	-	**1.714**	**1.714**

Amounts in EUR million	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Total amortized cost**	**Total fair value**
Credit cards	7	-	-	-	-	**7**	**7**
CDOs backed by ABS, orp. bonds, bank loans	890	99	37	25	-	**1.051**	**1.049**
Other ABS	22	4	2	8	30	**67**	**67**
At December 31, 2019	**919**	**103**	**39**	**33**	**30**	**1.125**	**1.123**

Unconsolidated structured entities
Aegon Nederland's investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented as part of the line item 'Investments' of the statement of financial position. Aegon Nederland's interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Nederland does not hold loans, derivatives or other interests related to these investments. The maximum exposure to losses from these investments is therefore equal to the carrying amount which is reflected in the credit risk concentration table regarding debt securities and money market investments. To manage credit risk Aegon Nederland invests primarily in senior notes. Additional information on credit ratings for Aegon Nederland's investments in unconsolidated structured entities are disclosed in the sections that describe per category of debt securities the composition and impairment assessments (refer to note 4.2.4 'Credit rating'). The composition of the structured entities portfolios of Aegon Nederland are widely dispersed looking at the individual amount per entity, therefore Aegon Nederland only has non-controlling interests in unconsolidated structured entities. Furthermore these structured entities are not originated by Aegon Nederland.

Aegon Nederland did not provide financial or other support to unconsolidated structured entities. Nor does Aegon Nederland have intentions to provide financial or other support to unconsolidated structured entities in which Aegon Nederland has an interest or previously had an interest.

	2020		2019	
	Number of entities	Carrying amount	Number of entities	Carrying amount
EUR 0 < 10 million	38	155	38	151
> EUR 10 < 25 million	14	244	16	271
> EUR 25 < 50 million	12	430	9	327
> EUR 50 < 75 million	9	509	6	355
> EUR 75 < 100 million	2	163	4	342
> EUR 100 < 150 million	3	391	-	-
> EUR 150 < 250 million	-	-	-	-
> EUR 250 million	-	-	-	-
At December 31	**78**	**1.891**	**73**	**1.447**

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

Type of asset in unconsolidated entity	2020 Interest income	Total gains and losses	**Total**	**Investments**
RMBSs	1	3	**4**	165
CMBSs	-	-	**-**	12
ABSs - CDOs	18	-	**18**	1.703
ABSs - Other	-	-	**-**	11
Total	**19**	**3**	**22**	**1.891**

Type of asset in unconsolidated entity	2019 Interest income	Total gains and losses	**Total**	**Investments**
RMBSs	1	2	**3**	311
CMBSs	-	-	**-**	13
ABSs - CDOs	18	-9	**8**	1.050
ABSs - Other	1	1	**2**	73
Total	**20**	**-7**	**13**	**1.447**

4.2.6. Past due and impaired financial assets

The tables that follow provide information on past due and impaired financial assets for Aegon Nederland. 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 Nederland 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
Shares	14	19
Mortgage loans	36	61
Other	3	3
At December 31	**52**	**83**
Interest received on impaired financial assets	**1**	**2**

Past due but not impaired financial assets

2020	0-6 months	6-12 months	> 1 year	Total
Mortgage loans	135	2	2	138
Private loans	24	8	5	36
Other loans	-	-	-	-
At December 31	**158**	**10**	**6**	**174**

2019	0-6 months	6-12 months	> 1 year	Total
Mortgage loans	105	3	-	108
Private loans	35	4	4	43
Other loans	-	-	3	3
At December 31	**140**	**7**	**7**	**154**

4.2.7. Equity market risk and other investment risk

A decline in equity markets may adversely affect Aegon Nederland's profitability and shareholders´ equity, sales of savings and investment products, and the amount of assets under management. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investments in which Aegon Nederland bears all or most of the volatility in returns and investment performance risk. The existence of direct equity risk is limited, as defined by Aegon Nederland's Risk policies.

Equity market exposure is also present in policyholders' accounts for insurance and investment contracts in which funds are invested in equities. Although most of the risk remains with the policyholder, guarantees within certain products may transfer some or all of this risk to Aegon Nederland. Lower investment returns also reduce the asset management fee that Aegon Nederland earns on the asset balance in these products, and prolonged investment under-performance may cause existing customers to withdraw funds and potential customers not to grant investment mandates.

Some of Aegon Nederland's insurance businesses have minimum investment return guarantees that require Aegon Nederland to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Deteriorating general economic conditions may result in significant decreases in the value of Aegon Nederland's equity investments.

The general account equity, real estate (mainly residential property) and other non-fixed-income portfolio of Aegon Nederland is as follows:

	2020	2019
Equity funds	6.398	5.208
Common shares	14	3
General account shares	**6.412**	**5.212**
Investments in real estate	2.331	2.229
Other financial assets	100	85
At December 31	**8.843**	**7.526**

The tables that follow present specific market risk concentration information for general account shares:

	2020	2019
Financials	14	3
Funds	6.398	5.209
At December 31	**6.412**	**5.212**
Of which past due and/or impaired assets	14	19

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

	2020	2019	2018	2017	2016
S&P 500	3.756	3.231	2.507	2.674	2.239
Nasdaq	12.888	8.973	6.635	6.903	5.383
FTSE 100	6.461	7.542	6.728	7.688	7.143
AEX	625	605	488	545	483

Sensitivity analysis of net income and equity to equity markets

The sensitivity of equity and net income to changes in equity markets reflects changes in the market value of Aegon Nederland's portfolios and the strengthening of the provisions for guaranteed minimum benefits, when applicable.

	2020		2019	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Equity increase 10%	15	15	16	21
Equity decrease 10%	-74	-74	-86	-91
Equity increase 25%	34	34	35	48
Equity decrease 25%	-207	-207	-249	-262

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

4.2.8. Liquidity risk

Liquidity risk is inherent in much of Aegon Nederland's activity. Each asset purchased and liability assumed has its own liquidity characteristics. Although most liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement, some can be called on demand. Other, more volatile, short-term liquidity requirements arise from collateral requirements as a result of having a derivatives portfolio. In normal circumstances, a significant proportion of the investment portfolio can be quickly converted into liquid assets but some assets, such as private loans, mortgage loans, real estate and holdings in unlisted enterprises are not highly liquid. If Aegon Nederland 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 receives premiums from policyholders and, in exchange, is required to make payments at a later time if certain conditions are met. The amounts received are invested primarily in fixed-income assets. Investments in less liquid assets may lead to an increase in expected income from the investment portfolio, but are more difficult to convert into cash if an unexpected payment has to be made to a policyholder or contract holder. Internal liquidity tests are designed to quantify this risk and ensure that there is sufficient liquidity even under extreme conditions. The aim of the internal liquidity test is to compare the liquidity requirement against the amount available in a number of scenarios.

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

Events included in the stressed liquidity scenario that 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);
- Impaired market period in which no assets, other than highly liquid sovereign bonds which are explicitly and fully guaranteed by the local authorities, can be sold.

Available liquidity
Available liquidity is determined by modelling the asset cash flows. These include but are not limited to:

- Contractual repayments and coupon payments;
- Expected advance payments on certain categories of assets, such as early repayment of mortgages;
- Expected extensions of maturity on certain categories of assets;

- Sales proceeds after an impaired market period[6] on assets taking into account conservative assumptions in the stressed liquidity scenario.

Required liquidity
The required liquidity is computed by modelling the cash flows from liabilities, such as:
- Contractual repayments at maturity;
- Benefits and claims;
- Full or partial withdrawal of assets at call;
- Periodic premium payments and potential changes in them;
- New business activities;
- Collateral obligations from derivatives.

For insurance liabilities too, most cash flows are fixed and stable but some will vary considerably when a different liquidity scenario is applied. In the stressed liquidity scenario it is expected there will be limited new commercial activity if Aegon Nederland's rating is cut and the situation in the financial market deteriorates. The amount of cash required as collateral payments for some derivative transactions will increase as well in the stressed liquidity scenario.

As part of managing its liquidity risk Aegon Nederland has entered into a repurchase agreement facility for the period 24 August 2018 until 24 August 2023. Under this facility Aegon Nederland has the right to enter into reverse repurchase transactions up to an amount of EUR 500 million to generate liquidity. To date no amount is drawn under the agreement.

Results of excess liquidity
Aegon Nederland holds EUR 17.2 billion (2019: EUR 16.1 billion) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The afore mentioned amounts are based upon Aegon Nederland's internally used definitions when testing the liquidity.

The excess liquidity is calculated after modelling the expected cash flows for assets and liabilities for each period of up to 2 years. The results of the excess liquidity calculations, available liquidity minus required liquidity, show that Aegon Nederland had sufficient liquidity in different scenarios and for all tested periods at year-end 2020.

On the basis of project operating cash flows and the income from financial assets, Aegon Nederland expects to be able to continue to meet its liabilities. This not only applies to Aegon Nederland on total, but also for the insurance entities and Aegon Bank on a stand-alone basis.

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 Nederland 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 Nederland 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 Nederland 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.

[6] This is the 'impaired market scenario' in which there is limited market liquidity with higher defaults and where it is difficult to sell financial assets.

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2020
Borrowings and group borrowings	-	6.591	3.782	493	2	10.868
Savings deposits	9.468	624	1.400	625	424	12.540
Investment contracts	-	10	40	40	102	191
Other financial liabilities	592	992	109	85	127	1.906
At December 31	**10.060**	**8.218**	**5.330**	**1.244**	**654**	**25.506**

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2019
Borrowings and group borrowings	-	5.425	2.656	802	3	8.885
Savings deposits	8.651	630	1.304	538	394	11.517
Investment contracts	-	8	40	50	102	199
Other financial liabilities	634	1.455	126	97	207	2.519
At December 31	**9.284**	**7.519**	**4.126**	**1.487**	**705**	**23.121**

Expected undiscounted cash flows relating to insurance and investment contracts

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

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

The liability amount in the financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in note 16 ‘Insurance contracts’ and note 17 ‘Insurance contracts for account of policyholders’.

2020	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Insurance contracts	1.688	5.776	7.056	36.051	50.571
Insurance contracts for account of policyholders	1.581	3.930	4.834	14.627	24.972
Investment contracts	12	46	41	102	201
At December 31	**3.282**	**9.752**	**11.932**	**50.779**	**75.745**

2019	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Insurance contracts	1.783	5.754	6.920	35.900	50.359
Insurance contracts for account of policyholders	1.551	4.094	5.091	16.655	27.391
Investment contracts	10	46	51	102	209
At December 31	**3.344**	**9.895**	**12.063**	**52.657**	**77.958**

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	-	443	2.755	2.848	6.217	12.263
Cash outflows	-	-814	-2.034	-1.677	-3.418	-7.943

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	645	2.721	4.158	10.234	17.759
Cash outflows	-	-591	-2.586	-3.244	-8.658	-15.079

4.2.9. Underwriting risk

Description of the measures used to assess underwriting risks

Underwriting risk arises from deviations of observed actuarial parameters from those used in product pricing assumptions. These are typically actuarial assumptions that cover policyholder behavior and claims. Underwriting risk is the result of both the inaccuracies in projecting liability cash flows over several future time periods, as well as fluctuations in the incidence of claims.

Aegon Nederland monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results in comparison to expectations. Aegon Nederland also performs experience studies for underwriting risk assumptions, where Aegon Nederland's experience (e.g. actual deaths, lapses, incidences of disability) is compared with previously formulated expectations (assumptions). Conclusions drawn from these studies play an important role in revising assumptions for valuing the business of Aegon Nederland. Where policy charges are flexible in products, Aegon Nederland uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon Nederland also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Mortality/longevity risk

Mortality risk arises from economic losses due to mortality levels deviating from expectation. When mortality is lower than expected, this is referred to as longevity risk. Policyholders are typically grouped into different classes in which each class is expected to have the same mortality rates. Best estimate assumptions are then developed for each policyholder class. Aegon Nederland is exposed to the risk that the best estimate assumptions are inaccurate.

Aegon Nederland sells certain types of policies that are at risk if mortality increases, such as term life insurance, and sells certain types of policies that are at risk if mortality decreases such as annuity and pension products.

Policyholder behavior risk
Policyholder behavior risk arises from economic losses due to policyholder behavior deviating from expectation. Insurance contracts typically provide policyholders with a variety of options that they may or may not exercise. Policyholder behavior risk is the risk that actual policyholder behavior varies from the assumptions built into the reserve calculations. This includes assumptions about lapses, withdrawals, premium payment levels, allocation of funds, and the utilization of possible options in the products.

The above mentioned elements of policyholder behavior risk all relate to insurance contracts. The prepayment risk on mortgages constitutes another important component of policyholder behavior risk. It is the risk of higher or lower prepayments than anticipated, including early redemption rates, thus impacting the value of the mortgage portfolio.

In general, Aegon Nederland is at risk if policy lapses decrease as in some cases higher claim payments including guaranteed returns have to be provided.

Expense risk
Expense risk is the risk that the expenses arising from servicing (re)insurance contracts develop differently than expected. Various types of expense risk are distinguished:

- Expense inflation risk is the risk that expenses inflate at a higher rate than that assumed in the calculation of the technical provisions. It does not cover the risk of general price inflation increases, which would be covered by mismatch risk; and
- Expense level risk is the risk that unexpected changes in maintenance expenses for in-force business will occur (assuming that the volumes of business are in line with best estimate assumptions). The risk therefore corresponds to an increase in the total expenses. It is effectively the change in the best estimate expense assumption given a 1-in-200 year expense event.

Most expenses Aegon Nederland has within its business will be subject to expense risk if not contractually defined. These types of expenses may include salaries, office space, software licenses and fees to intermediaries.

Risk Concentrations

In addition to the risk tolerance limits it's a common practice to address 'concentration' of risk on insured lives, using a risk limit per single life (or joint lives). The exposures on a few lives with a much higher risk than the average in the portfolio can create a too high volatility in the results. Limiting such exposures reduces the impact of process risk and also increases the stability of the underwriting results. These risk limits per single life (or joint lives) will be further referred to as 'retention limits'.

The retention limits are typically chosen in such a way that the remaining exposure is acceptable, relative to the size of the earnings and the size of the balance sheet of the company. Risk mitigation and managing compliance with the retention limits can be achieved by reinsurance (external or internal), by the underwriting process or by the product design.

For non-life, concentrations of underwriting risk arise in case a catastrophic event causes a large number of claims. Concentration risks identified by Aegon Schadeverzekering, with a material impact on Own Funds are Windstorm & Hail and Accident Concentration. The first Concentration Risk is the loss due to one or more Wind or Hail storms causing damage to insured buildings in large parts of the country, net of reinsurance. The second Concentration Risk represents the net of reinsurance impact of an accident occurring in a single location, affecting a large number of persons carrying some form of Accident & Health coverage provided by Aegon Schadeverzekering.

Risk mitigation techniques used for underwriting risks

Aegon Nederland has put in place a number of contracts with external parties that mitigate its exposure to underwriting risk and qualify either as reinsurance contracts or hedges. In case of reinsurance, specific insurance obligations are transferred to a reinsurer. In the hedge contracts, pay-outs are linked to the development of a general Longevity index, which is closely related to Aegon Nederland's insurance obligations.

The effectiveness of the reinsurance program is annually monitored by the Actuarial Function holder, and reported in the Actuarial Function holder report.

Reinsurance
Aegon Nederland reinsures part of its insurance exposure to third-party reinsurers under traditional indemnity, and 'excess of loss' contracts. Reinsurance helps Aegon Nederland manage, mitigate and diversify its insurance risks, and limit the maximum loss it may incur.

Aegon Levensverzekering has reinsured its term life assurance through quota-sharing contracts with Reinsurance Group of America and Munich Re. In December 2019, Aegon Levensverzekering entered into a longevity reinsurance contract with Canada Life Reinsurance. The contract reinsures a specified portfolio of insurance contracts against possible future mortality developments. The related portfolio is approximately one quarter of the longevity exposure of Aegon Levensverzekering. The agreement includes both deferred and in-payment pensions and annuities. The contract commenced on December 31, 2019, and will run until the portfolio runs off. Refer to note 12 ‘Deferred expenses’ for more information.

For non-life, Aegon Schadeverzekering reinsures its property, general third-party liability, legal aid, disability and motor third-party liability business. The main counterparties are Hannover Re and SCOR Re Europe. For property insurance, an 'excess of loss' contract is in place with a retention level of EUR 350,000 for each separate risk, and EUR 2,5 million for each windstorm event. For motor third-party liability insurance, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 750,000 for each event. For general third-party liability, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 350,000 for each event. In 2018 for disability a reinsurance agreement has been signed with Munich Re. The structure of the reinsurance agreement is a quota share of 95% for the annual income portions up to and including EUR 100,000 and a quota share of 10% for benefits related to the annual income portions above EUR 100,000. In 2019 a reinsurance agreement with respect to the legal aid portfolio (‘Rechtsbijstandsverzekeringen)’ has been signed with Arag SE Nederland. Aegon Schadeverzekering has fully reinsured the risk for this portfolio.

In December 2020 Aegon Schadeverzekering entered into a disability reinsurance contract of its AOV individual portfolio with a group of reinsurers effective from December 31, 2020 for a three year period, with the option on mutual agreement to renew for periods of three years. The structure of the reinsurance agreement is a quota share of 60% of all premiums and 60% of all claims are ceded to the reinsurer. The size of the underlying portfolio is approximately EUR 50 million gross premium per year. There is no impact on the IFRS4 balance sheet provision for Aegon Nederland per 31 December 2020, but the reinsurance agreement results in a significant impact on IFRS LAT provision (EUR 11 million), the Solvency II Own Funds (EUR 12 million) and the Solvency II SCR (EUR -/-32 million). As a result, the Solvency II ratio of Aegon Nederland increased with 2%. The increased IFRS LAT margin of Aegon Schadeverzekering caused an impact of EUR 11 million in ‘Income before tax’ due to the LAT deficit of Aegon Levensverzekering.

Hedges
Aegon Nederland partially offsets the risk of future longevity increases related to a part of its insurance liabilities by buying longevity index derivatives. These longevity derivatives will pay out if the mortality rates in future years have decreased more than a pre-determined percentage compared with the base scenario at the moment of signing the contract. The longevity hedge provides additional balance sheet protection in a worst case scenario. The effectiveness of the risk mitigation program is monitored by periodically assessing the impact on the hedge under a variety of adverse scenarios for Longevity and Mortality risk.

Risk sensitivity for underwriting risks
The main underwriting risk Aegon Nederland is exposed to is longevity risk, i.e. the risk that life expectancy improves and policyholders as a whole will live longer. As a result, policyholders, who are entitled to pension benefits after retirement, will receive these benefits over a longer period. On the other hand, payments to policyholders holding coverage of death benefits, such as Term and Whole Life Insurance, are expected to decline when life expectancy improves.

In the sensitivity scenario for longevity risk, the impact of a 10% decrease and 10% increase of mortality rates in all future years is analyzed, including coverage of pension as well as death benefits. The impact on net income and shareholders’ equity is shown below.

If mortality rates decrease expected future benefits to policyholders increase markedly, as the increase in future pension benefits outweighs the reduction of death benefit payments. As a result, the value of obligations to policyholders increases and net income and shareholders’ equite decline.

Aegon Nederland is also at risk if policy lapses decrease or if morbidity rates increase, but to a much lesser extent than in case of a decrease in mortality rates. If lapses decrease, then higher claim payments including guaranteed returns have to be provided in some cases. If morbidity rates increase, then more people receive benefits from their policy (mainly related to the WIA-portfolio).

	2020		2019	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
20% increase in lapse rates	65	65	48	48
20% decrease in lapse rates	-73	-73	-54	-54
5% increase in mortality rates	438	479	355	392
5% decrease in mortality rates	-443	-489	-356	-398
10% increase in morbidity rates	-59	-59	-104	-104
10% decrease in morbidity rates	59	59	89	89

The sensitivity of net income and equity for parallel shifts in underwriting shocks increased compared to 2019, as a result of the higher LAT deficit following decreased interest rates in 2020. For morbidity the sensitivity of net income and equity decreased due to the impact of disability reinsurance contract Aegon Schadeverzekering entered into at year-end 2020. Due to this transaction, part of the morbidity risk of the portfolio has been transferred to the reinsurer, resulting in less morbidity sensitivity on the insurance provision.

4.3. Regulation and supervision

4.3.1. General

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 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. With regard to banks, the DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank (ECB).

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

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 DNB, as prudential supervisory authority, can, under certain circumstances, require a recovery plan, a short-term financing plan, appoint a trustee, draw up a transfer plan or (ultimately) withdraw the license of a financial institution.

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.

4.3.2. Financial supervision of insurance companies

The Solvency II framework consists of an EU Directive and has consequently been transposed into the Dutch Financial Supervision Act. A large part of the Level II Solvency II rules are, however, also set out in EU regulations, which apply directly in EU member states, and as a consequence have not been implemented into national legislation, such as in the Decree on Prudential Rules under the Wft (Besluit prudentiële regels Wft).

The following insurance entities of Aegon Nederland are subject to prudential supervision of the DNB:

- Aegon Levensverzekering;
- Aegon Schadeverzekering; and
- Aegon Spaarkas

An insurance company is neither permitted to conduct both life insurance and non-life insurance business within a single legal entity (with the exception of reinsurance), nor to carry out both insurance and banking activities within the same legal entity. Within Aegon Nederland, Aegon Levensverzekering N.V. and Aegon Spaarkas N.V. conduct life insurance activities. Aegon Schadeverzekering N.V. conducts non-life insurance activities. Prudential supervision is exercised by the home state supervisory authority (DNB in the Netherlands). Insurance companies in the Netherlands may conduct their activities on a cross-border basis or through a branch office based on the mutual recognition of (prudential) supervision in the EU (the so-called 'European passport'). Aegon Nederland does not have material cross-border insurance business or business conducted through branch offices elsewhere in the EU.

4.3.3. Financial supervision of credit institutions

As of November 4, 2014, Aegon Bank has been subject to indirect supervision by the ECB under the new European system of banking supervision, the Single Supervisory Mechanism (SSM), which comprises the European Central Bank and the relevant national authorities of participating EU Member States. The SSM is one of the elements of the Banking Union. The ECB may give instructions to the DNB in respect of Aegon Bank or even assume direct supervision over the prudential aspects of the Aegon Bank's business. Pursuant to the banking supervision by the DNB, Aegon Bank is (among others) required to file monthly regulatory reports and an audited Annual Report.

Credit institutions are subject to regulatory requirements. These include (among others) capital and liquidity requirements, the requirement to maintain a certain leverage ratio, governance and reporting requirements in line with the requirements of EU Directive 2013/36/EU (CRD IV) and EU Regulation 575/2013 (CRR).

CRD IV and the CRR are the European Union's translation of the Basel III accord for prudential supervision of credit institutions and investment firms. The CRR is binding for all EU member states and became effective on January 1, 2014. CRD IV is an EU directive, and is required to be implemented into local legislation. CRD IV has been implemented in the Netherlands by means of amending the Wft on August 1, 2014.

The CRR is applied across all EU member states starting January 1, 2014. The CRD IV and CRR frameworks include requirements with respect to capital adequacy, and introduce requirements with respect to increased capital against derivative positions, the introduction of two supplementary buffers (a capital conservation buffer and a counter-cyclical buffer), a new liquidity framework (liquidity coverage ratio and net stable funding ratio and a leverage ratio. The leverage ratio is defined as Tier-1 capital divided by a measure of non-risk weighted assets. Under CRD IV, the leverage ratio may not fall below 3%, although uncertainty still remains as to the exact percentage and the scope of the leverage ratio under CRD IV. With respect to the percentage, the Dutch government has announced that it wishes to implement a leverage ratio of at least 4% for large Dutch banks, which does not apply to Aegon Bank. The ultimate aim of Basel III/CRD IV is to reduce leverage in order to bring institutions' unweighted assets more in line with their Tier-1 capital. The capital requirements include qualitative in addition to quantitative requirements.

Capital of the highest quality, Common Equity Tier 1, forms a substantial part of the capital of a credit institution. Additional Tier 1 capital forms the rest of the Tier 1 capital. In addition, the capital of a credit institution may be composed of Tier 2 capital, which is of a lesser quality than Tier 1 capital.

EU Directive 2014/59/EU (the Banking Recovery and Resolution Directive, BRRD) and Regulation 806/2014 on the Single Resolution Mechanism (the SRM Regulation) form the European framework for recovery and resolution for (among others) ailing banks, certain investment firms and their holding companies. The BRRD was implemented in the Netherlands on November 26, 2015, by means of an amendment of the Wft (the BRRD Implementation Act). The SRM Regulation was adopted on July 15, 2014. Those parts of the SRM Regulation that deal with recovery and resolution came into effect on January 1, 2016.

The BBRD provides for early intervention measures that may be imposed by the national competent authority in respect of Aegon Bank in the event that its financial condition is deteriorating. These early intervention measures could pertain, among others, to a change of its legal or operational structure, the removal of (individuals within) senior management or the management body, or the appointment of a temporary administrator to work together with or replace such (individual within) senior management or management body. The national resolution authority may also under certain circumstances decide to write down or convert relevant capital instruments, including Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, in a specific order.

Were Aegon Bank to fail or be likely to fail and the other resolution conditions were also met, the national resolution authority would be able to place Aegon Bank under resolution. As part of the resolution scheme to be adopted by the national resolution authority it may decide to apply certain resolution tools and exercise its powers pursuant to the implemented BRRD in order to give effect to such resolution tools. In addition, the SRM Regulation and the BRRD Implementation Act introduce the bail-in tool which gives the national resolution authority the power to write down or convert into equity certain debt and other liabilities of the institution.

Pursuant to the SRM Regulation and the BRRD Implementation Act, banks are required at all times to meet a minimum amount of Own Funds and eligible liabilities (MREL), expressed as a percentage of the total liabilities and Own Funds. The competent resolution authority will set a level of minimum MREL on a bank-by-bank basis based on assessment criteria due to be set out in technical regulatory standards.

4.4. Capital management and solvency

4.4.1. Insurance activities

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

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

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

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

Adequate capitalization
During 2020 and 2019 all regulated entities within Aegon Nederland complied with externally imposed minimum capital requirements.

The capitalization of the Aegon Nederland and its operating units is managed in relation to the most stringent of local regulatory requirements, rating agency requirements and/or self-imposed criteria. Aegon Nederland manages its Solvency II capital in relation to the required capital.

Aegon Nederland's capital management framework is built on, among other things, managing capital in the operating units within target capital management zones. Under Aegon Nederland's capital management framework, the bottom-end of the capitalization target range of Aegon Nederland is 155% and for the subsidiaries of Aegon Nederland is as follows:

- Aegon Levensverzekering: 150%;
- Aegon Schadeverzekering: 145%;
- Aegon Spaarkas: 155%.

In the following table a reconciliation between the group equity under IFRS equity and the Own Funds under Solvency II is presented.

	31-12-2020*	31-12-2019
Shareholders' Equity (IFRS)	6.961	6.775
Revaluations	-13	-83
Available own funds	**6.948**	**6.692**

*The available Own Funds for 2020 is an estimate. Concerning the individual insurance entities, it is not final until filed with the regulator and is subject to supervisory review. For Aegon Nederland, no filing requirements apply. Furthermore, it should be noted that as per year-end 2020 Aegon Nederland reports Solvency II figures including banking activities (Aegon Bank), in accordance with industrywide guidelines from the DNB. The comparatives have been adjusted accordingly.

The available Own Funds 2019 disclosed are without taking into account the dividend paid in February 2020. The available Own Funds 2020 disclosed are without taking into account the dividend paid in March 2021.

The increase in Own Funds is driven by normalized capital generation, the impact from the mortality table update (AG2020) and market movements (where decreased interest rates resulted in an increase in Own Funds due to the overhedged position on a Solvency II basis, while movements in spreads, including the EIOPA VA and IAS19 spread, resulted in a decrease in Own Funds). The Own Funds increase is partly offset by the impact from the UFR decrease from 3.90% to 3.75% and dividend payments in the first and fourth quarter of 2020.

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

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

Minimum regulatory solvency requirements

Insurance laws and regulations contain minimum regulatory capital requirements of 100% Solvency Capital Requirement (SCR) for insurance companies in the European Union. For insurance companies in the European Union, Solvency II also defines a lower capital requirement, the Minimum Capital Requirement (MCR). An irreparable breach of the MCR would lead to the withdrawal of the insurance license. Aegon monitors these minimum regulatory capital requirements as the level around which the regulator will formally require management to provide regulatory recovery plans.

During 2020, the insurance companies of Aegon Nederland (Aegon Levensverzekering, Aegon Schadeverzekering and Aegon Spaarkas) continued to comply with the minimum regulatory solvency requirements, driven by the fact that Aegon Nederland’s internal target capital levels are well above 100% SCR levels.

Capital restrictions

Aegon Nederland is subject to legal restrictions on the amount of dividends it can distribute to its shareholder. Refer to the disclosure for capital restrictions included in the statutory financial statements in note 8.2 ‘Statement of changes in equity’. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

The ability of Aegon Nederland's main subsidiaries, principally insurance companies, to pay dividends to Aegon Nederland is constrained by the internal thresholds that Aegon Nederland set to adequately capitalize its subsidiaries. These levels exceed the levels set by DNB and governed by DNB. Based on the capitalization level of the subsidiary, DNB is able to restrict and/or prohibit the transfer of dividends to Aegon Nederland.

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

Capital quality
At year-end 2020 the capital of Aegon Nederland qualifies as unrestricted Tier 1 capital. At year-end 2020 Aegon Nederland has a net Deferred Tax Liability position (2019: a net Deferred Tax Asset (DTA) position of EUR 127 million – a DTA qualifies as Tier 3 capital). Available Own Funds are equal to eligible Own Funds.

4.4.2. Banking activities
Aegon Nederland's banking activities are executed via its subsidiary Aegon Bank. Pursuant to guidance issued by the Dutch Central Bank, the level of capital is subject to certain requirements. Aegon Bank's capital is reviewed against its on-balance sheet and off-balance sheet assets. These assets are weighted according to their risk level. The minimum total capital ratio (also known as the BIS ratio) is 8%. Due to the introduction of CRD IV the CET1 ratio is considered a better measure for capital management purposes than the BIS ratio. During the year Aegon Bank fully complied with the required CET1 ratio. At year-end the CET1 ratio amounts to 20.9% (2019: 19.8%).

4.5. Product information
Aegon Nederland operates through a number of brands, including Knab, TKP Pension and the Robidus group. Aegon is itself one of the most widely recognized brands in the Dutch financial services sector. Refer to note 42 'Group companies' for information on Aegon Nederland's primary subisidiaries and developments in legal structure. Aegon Nederland had the following reporting segments in 2020:

- Life;
- Non-life;
- Banking; and
- Service Business.

4.5.1. Life
Aegon Nederland's life entities Aegon Levensverzekering and Aegon Spaarkas have mostly non-selling products on its balance sheet and are managed as a Financial Asset. This means that the focus is on capital optimization and cost reduction to maximize return on capital.

Pensions
Interest rates have been low for an extended period of time, driving a shift from Defined Benefit (DB) pension plans to DC pensions plans. This year, fundamental changes of the Dutch pension system as of 2026 were added on top of this, as a result of which only DC schemes will be allowed for new pension accruals per 2026. As Aegon Nederland offers DC schemes via a separate legal entity, Aegon Cappital, the consequence for Aegon Levensverzekering is that its Group pension products will all become closed books.

In anticipation of these changes, Aegon Nederland proactively decided to stop offering Group pension DB products to new clients in 2021. Renewals of existing contracts are still possible, but only if that facilitates the existing clients in their transition towards DC no later than 2026. In addition, Aegon Levensverzekering remains open for risk insurance and annuities that are closely linked to DC schemes. More detail on annuities is provided further below.

The Group DB products that remain on the balance sheet of Aegon Levensverzekering are the following:

- Separate account group contracts with individually determined asset investment strategies, profit sharing and guarantees;
- DB contracts with profit sharing based on a pre-determined interest rate;
- Traditional variable unit-linked products;
- DB subscriptions; and
- DB contracts without profit sharing.

The last two products in the list above were still sold in 2020 while the others were already closed for new clients. In each product group there are also contracts with a due date in the future as a result of which premiums are still being paid. In addition, indexations remain possible for all these products while for some products additional funds need to be contributed.

Annuities
The most actively sold products in this category are simple payout annuities and variable annuities. These products are linked to DC schemes in which participants build up their capital and are obliged by law to purchase an annuity at the pension date. Participants can choose between a guaranteed annuity, where all risks are borne by Nederland, or a variable annuity without investment guarantees, where all risks are borne by the

participant. Given that a significant shift has been observed towards DC schemes, these annuities are a natural driver of growth as they provide a solution for the payout phase. Annuity insurance also includes older products with guaranteed interest rates and profit sharing for which no new business is written.

Risk insurance
This category mainly includes the survivor's pension insurance sold as a rider to DC pension schemes. Premiums are paid by the employer and the product pays benefits to the spouse/children in the event of the death of the insured.

Endowment insurance
Endowment insurance includes several products that accumulate a cash value. Premiums are paid at inception or over the term of the contract. These products pay benefits on the policy maturity date, subject to survival of the insured. Most policies also pay death benefits should the insured die during the term of the contract. Death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product.

Minimum interest guarantees exist for all generations of endowment insurance products written, except for universal life products, for which premiums are invested solely in equity funds. Older generation products contained a 4% guarantee when sold. In 1999, the guarantee for new products decreased to 3%. In 2013, the guarantee on new products was reduced to 0% and in 2019 the guarantee was ended. The sale of these products ended several years ago.

Term and whole life insurance
Term life insurance pays out death benefits should the insured die during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of when this occurs. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted at the request of the policyholder. Term life insurance policies do not include profit-sharing mechanisms. Part of the whole life insurance portfolio has profit-sharing features, which are based on external indices or the return of related assets. In the first quarter of 2020, Aegon Nederland stopped offering these products.

4.5.2. Non-life

Accident and Health
Aegon Nederland offers disability and sick leave products to employers that cover disability and sick leave payments for employees not covered by social security and for which employers bear the risk. In addition, for some forms of disability, employers can choose to use the social security system to insure these risks or opt out and seek private insurance. Private insurance appeals to employers as it helps to reduce absenteeism and disability thanks to better reintegration efforts. For individuals, Aegon Nederland offers a disability product mainly targeted at the growing self-employed market.

Property and Casualty
Aegon Nederland has focused exclusively on retail lines in general insurance, offering products in the segments of property, motor, travel, legal assistance, private liability claims, pet insurance, and injury. The ambition for the P&C retail segment is to provide the best digital servicing in the Dutch market, while building long-lasting relationships with customers and distribution partners.

Through the service concepts, Aegon Nederland supports intermediaries with excellent digital processes to help their customers in the optimal way, while also protecting the health of the supply chain by stimulating performance at sustainable levels for customers, intermediaries, and insurer. In addition to the intermediary market, Aegon Nederland further develops digital and online capabilities, as the direct market has sustained a sizable share in the overall distribution in the past years, especially for the Motor segment. The direct market includes sales via Aegon's own website and affiliates, and via aggregator websites.

4.5.3. Banking

In 2019, Aegon Nederlandannounced the integration of the Aegon Bank and Knab operations under the Knab brand. By integrating both operations and rationalizing product offerings costs will be reduced, operations will be more efficient, and governance unified and simplified. In 2020 preparations and migration started which is due to be completed in 2021. In this period, customers and products of the Aegon Bank label will be migrated to the Knab label. Aegon Bank continues to reinforce the Aegon Nederland wide pension offering with its banking products (savings, bank savings and investments), but under the Knab brand.

Knab is a fully online digital bank that went live in 2012. Knab's purpose is to have their customers feel at ease when it comes to their finances, every day. The bank informs customers about their personal financial situation and enables them to achieve their financial goals. This reflects the core of Aegon's purpose. Knab offers payment accounts, savings, and a basic investment product.

The Aegon Bank label focuses on customers whose income and wealth are in the mid-market range and offers both savings products focused on security, and investment products. The main focus of savings is on 'Banksparen' products. 'Banksparen' is a tax-deferred savings product in which cash amounts are deposited in a 'locked' bank account. The amount saved is available after a certain period for specific purposes, such as for a supplementary pension or paying off a mortgage. This product is predominantly sold via independent financial advisors, who remain a very important distribution channel. After the migration, this product will be offered under the Knab label and therewith complements the current Knab offerings.

4.5.4. Services Business

Mortgage loans
Aegon Nederland offers mainly annuity/linear residential mortgages, while also catering to consumers requiring interest only loan-parts. Mortgage loans are originated both as investments for Aegon Nederland’s insurance and bank entities as well as distributed to third-party investors. Such investors are provided access to this high-quality asset class through the Aegon Dutch Mortgage Fund, SAECURE (Aegon’s Dutch residential mortgage-backed securities program), covered bond program, and various bespoke structures to tailor to investors’ needs. Investors value our mortgage offering for its attractive spread and low credit-loss experience through disciplined conservative underwriting. Consumers and independent financial advisors choose Aegon mortgages for the high quality of service, reliable performance, and accessibility through the economic cycle. During 2020, total mortgage assets-under-administration grew to over EUR 50 billion.

Aegon Cappital
Aegon Cappital is a low-cost provider of DC pension schemes offered through intermediary advisors. Aegon Cappital offers DC pension schemes in a standardized subscription-based model to small and medium enterprises and customized contracts for medium-to-large corporations. The model enables employers to choose from a variety of contribution tables and social security offsets, while remaining flexible for regulatory changes, such as changes in pension age or fiscal contribution limits. Savings premiums are invested in life cycle funds by Aegon Investment Management B.V.

Aegon Cappital is one of the largest pension premium institutions (‘PPIs’) in the Netherlands and benefits considerably from economies of scale. The low interest rate environment and the fundamental changes of the Dutch pension system per 2026 will result in a continued shift to DC schemes.

PPIs cannot bear any investment or insurance risks on their offerings due to regulatory requirements. The schemes include disability or life insurance which are offered by partners Aegon Levensverzekering, Aegon Schadeverzekering and Elips Life AG, and an optional guaranteed interest rate during the accumulation phase offered by partner Aegon Levensverzekering. Apart from operational and regulatory risk, Aegon Cappital runs no other risk.

TKP Pensioen, Robidus and Nedasco
TKP Pensioen is a top 3 player in the Dutch market for pension administration. TKP Pensioen administers pension rights for several large company and industry pension funds as well as other pension providers such as a premium pension institution. Their clients – 3.8 million participants and 76,000 employers – rely on TKP Pensioen for correct and timely pension payments and clear and accessible pension information and communication - from the mandatory pension statements to customer contact and digital customer services.

Robidus Groep advises corporations on the risks and associated costs under Dutch social security legislation and provides corporations and insurance companies with claims management and outsourcing solutions to manage these issues, including outsourcing services. It operates as an independent organization within Aegon Nederland.

Nedasco is an intermediary service provider that is mainly active in non-life business domains.

5. Cash and cash equivalents

	2020	2019
Cash on hand and balances with banks	2.959	3.087
Short term bank deposits	1.130	1.382
Money market investments	869	4.564
At December 31	**4.958**	**9.032**

The carrying amounts disclosed reasonably approximate the fair values at year-end. The collateral relates to securities lending and repurchase agreements and margins on derivatives transactions. A corresponding liability to repay the cash is recognized in other liabilities.

Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. Aegon Nederland earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities. Refer to note 40 'Transfers of financial assets' for more information on collateral and reverse repurchase obligations.

Cash and cash equivalents include cash and demand balances held at DNB. DNB requires Aegon Bank to place 1% of their deposits with agreed maturity or the savings accounts (without restrictions to withdraw their money) in an account with DNB. These deposits are not freely available. This so-called minimum reserve is renewed each maintenance period consisting of approximately 6 weeks. No interest is paid on this minimum reserve.

	2020	2019
Average balance on deposit with DNB at year-end	1.360	1.785
Average minimum required balance on deposit by DNB for year-end period	84	79

Other cash and cash equivalents are unrestricted. Due to the nature of this asset the total amount classifies as current assets.

6. Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and investments in investment funds. Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement.

	Note	31-12-2020	31-12-2019
Available-for-sale financial assets (AFS)	6.1	26.059	19.664
Loans (amortized cost)	6.1	34.936	34.235
Financial assets at fair value through profit or loss (FVTPL)	6.1	7.071	5.234
Total financial assets, excluding derivatives		**68.066**	**59.132**
Investments in real estate	6.3	2.331	2.229
Total investments for general account		**70.397**	**61.362**

6.1. Financial assets, excluding derivatives

2020	AFS	Loans	FVTPL	Total	Fair value
Shares	28	-	6.384	6.412	6.412
Debt securities	25.931	-	687	26.618	26.618
Mortgage loans	-	30.591	-	30.591	33.761
Private loans	-	4.320	-	4.320	5.244
Other	100	25	-	125	125
At December 31	**26.059**	**34.936**	**7.071**	**68.066**	**72.159**

2019	AFS	Loans	FVTPL	Total	Fair value
Shares	23	-	5.189	5.212	5.212
Debt securities	19.556	-	45	19.601	19.601
Mortgage loans	-	29.567	-	29.567	33.111
Private loans	-	4.440	-	4.440	5.109
Other	85	227	-	312	313
At December 31	**19.664**	**34.235**	**5.234**	**59.132**	**63.346**

	2020	2019
Current	11.237	9.552
Non-current	56.829	49.581
At December 31	**68.066**	**59.132**

Certain mortgage loans shown within the category amortized 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 1,049 million as at December 31, 2020 (2019: EUR 768 million higher). None of the financial assets has been reclassified during the financial year. Other loans comprise deposits with insurance companies with respect to reinsurance agreements. These are not freely available.

6.2. Loans allowance account

	2020	2019
At January 1	161	126
Addition charged to income statement	85	71
Amounts written off	-24	-10
Other movements	-38	-26
At December 31	**184**	**161**

6.3. Investments in real estate

	2020	2019
At January 1	2.229	2.150
Additions	148	169
Property under construction	-	10
Disposals	-180	-259
Fair value gains / (losses)	134	159
At December 31	**2.331**	**2.229**

Aegon Nederland’s investments in real estate consists mainly of residential property. The investments in real estate are deemed non-current. Aegon Nederland has entered into long-term residential property leases that can be terminated subject to a short-term notice by the tenant. Although most rental contracts have a clause that stipulates that the annual rent can be increased based on a fixed schedule or market conditions, for the majority of these residences the possibility of increasing rent is limited. Under Dutch law, the maximum annual rent increase on residential property rented in the affordable housing segment is specified by the Dutch national government and equals the annual inflation rate plus a small margin.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal. The entire portfolio of investments in real estate was appraised during the reporting period by independent external valuators.

Rental income is reported as part of investment income in the income statement, see note 27 'Investment income'. Additional information on rental income is presented in the table below:

	2020	2019
Theoretical rental income	125	103
Minus missed rental income vacant investment property	25	2
Gross rental income	**100**	**101**
Direct operating expenses of property that generated rental income	-25	-31
Direct operating expenses of property that did not generate rental income	-	-
Net income on real estate	**75**	**70**

7. Investments for account of policyholders

Investments for account of policyholders comprises of financial assets held by investment funds to meet obligations to third parties. Investment returns on these assets are passed on to the policyholder. The fees for managing these investments are included in note 28 'Fee and commission income'. See also note 38.3 'Summary of financial assets and financial liabilities at fair value through profit or loss'. The investments for account of policyholders are deemed non-current.

	2020	2019
Shares	8.071	8.329
Debt securities	8.460	8.194
Investments in investment funds	706	696
Mortgage loans	1.700	1.815
Other financial investments	219	661
Cash and cash equivalents	3.973	3.495
At December 31	**23.130**	**23.190**

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

8. Derivatives

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives not designated in a hedge	9.847	8.225	6.673	7.134
Derivatives designated as fair value hedges	159	107	1.063	784
At December 31	**10.005**	**8.331**	**7.736**	**7.917**

	2020	2019
Current	-197	-105
Non-current	2.466	519
Total net derivatives at December 31	**2.269**	**414**

Derivatives not designated in a hedge – general account

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives held as an economic hedge	9.847	8.225	4.636	5.395
Bifurcated embedded derivatives	-	-	2.037	1.739
At December 31	**9.847**	**8.225**	**6.673**	**7.134**

Derivatives are classified as economic hedges to the extent that they do not qualify for hedge accounting or where Aegon Nederland has elected not to apply hedge accounting. Bifurcated embedded derivatives are embedded in unit-linked insurance contracts in the form of guarantees for minimum benefits.

Derivatives designated as fair value hedges
Macro fair value hedge accounting under the EU carve out is applied by subsidiaries Aegon Bank and Aegon Hypotheken.

	2020	2019
Fair value changes mortgage loans recognized in income statement under EU carve-out	279	374
Offset amount of fair value changes recognized on derivatives used as hedging instrument	-256	-354
Total accounting ineffectiveness under EU carve-out recognized in the income statement	**23**	**20**

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

	2020	2019
Presented as asset	159	107
Presented as liability	1.063	784
At December 31	**-904**	**-677**

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 Nederland 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 (Euro Short-Term Rate). Compensation has been exchanged through the clearing house for any resulting impact on the valuation of derivatives, except for one counterparty who has not compensated, resulting in a loss of EUR 14 millon (pre-tax). Aegon Nederland is currently investigating legal possibilities in this case. 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 13,838 million; 2019: EUR 10,571 million).

Aegon Nederland 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. Investments in associates

	2020	2019
At January 1	106	85
Additions	47	31
Disposals	-5	-
Share in net income	80	-1
Dividend	-32	-1
Share in changes in associates' equity	2	-2
Reclassification from joint ventures	836	-
Reclassification to investments	-11	-
Other	-20	-7
At December 31	**1.004**	**106**

All associates are unlisted and are considered to be non-current assets. The investments in associates include stakes in insurance companies that are required to maintain a minimum solvency margin based on local directives. Such restrictions can affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future. There are no unrecognized shares of losses in associates. The financial statements of all associates have the same reporting date as Aegon Nederland.

The main associate is the Amvest Residential Core Fund which invests in real estate. Up to 2019 this investment was accounted for as ‘Investment in joint ventures’. The interest of Aegon Nederland in the Amvest Residential Core Fund was reduced in previous years due to the entrance of other participants in the Fund. As a result of this Aegon Nederland does not have joint control. As Aegon Nederland has significant influence, the investment in the Amvest Residential Core Fund is now accounted for as associate. As per January 1, 2020, EUR 836 million was reclassified from ‘Investments in joint ventures’ to ‘Investment in associates’. In 2019 the share in net income from the Amvest Residential Core Fund was EUR 100 million. The reclassification has no impact on shareholder’s equity or total comprehensive income.

In 2020 the preferred shares in Auxmoney GmBH were converted into ordinary shares. After additional investments from other shareholders in 2020 the interest of Aegon Nederland decreased significantly. As a result Aegon Nederland does not have significant influence in this entity anymore and the related investment of EUR 11 million was reclassified from ‘Investments in associates’ to ‘Investments’ as AFS financial assets.

In 2020 the investment in OB Capital Cooperatief U.A. was impaired with EUR 17 million, based on the net equity value at year-end 2019. In 2019 Aegon Nederland invested EUR 20 million in OB Capital Cooperatief U.A. and EUR 10 million in Aegon Growth Capital.

Refer to note 42.2 ‘Investments in associates and joint ventures’ for a listing of the principal associates and the percentage holding of Aegon Nederland.

Summarized financial information of material associates

Aegon Nederland considers its investment in the Amvest Residential Core Fund as a material associate. The summarized financial information below presents the material associate Amvest Residential Core Fund on a 100% basis.

	2020
Summarized statement of financial position	
Current assets	34
Non-current assets	3.876
Total assets	**3.910**
Current liabilities	55
Non-current liabilities	671
Total liabilities	**726**
Net assets	**3.184**
Summarized statement of comprehensive income	
Revenues	104
Profit or loss from continuing operations	281
Income tax expense or income	-
Post-tax profit / (loss) from continuing operations	**281**
Post-tax profit / (loss) from discontinued operations	
Other comprehensive income	-
Total comprehensive income	**281**
Dividends received from associates	**32**

A reconciliation of the summarized financial information of the material associate to the carrying amounts is as follows:

	2020
Net assets of associates as presented above	3.184
Group share of net assets of associates, excluding fair value adjustments	919
Carrying amount of investments in material associates	**919**

Of the non-current assets in the table with 'Summarized financial information of material associates', EUR 441 million is related to investment property under construction (2019: EUR 431 million).

In addition to the interest in the material associates disclosed above, Aegon Nederland also has interests in a number of individually immaterial associates.

	2020	2019
Aggregate carrying amount of individually immaterial associates	85	106
Aggregate amount of Aegon Nederland's share of:		
- Profi from continuing operations	-1	-1
- Other comprehensive income	2	-2
- Total comprehensive income	**1**	**-3**

10. Investments in joint ventures

	2020	2019
At January 1	1.159	1.001
Additions	19	89
Disposals	-	-1
Share in net income	19	125
Dividend	-34	-55
Reclassification to associates	-836	-
At December 31	**327**	**1.159**

All joint ventures are unlisted and are considered to be non-current assets. There are no unrecognized shares of losses in joint ventures. The financial statements of all joint ventures have the same reporting date as the group.

Refer to note 42.2 'Investments in associates and joint ventures' for a listing of the principal investments in joint ventures and the percentage holding of Aegon Nederland.

Reclassification to associates entails the interest of Aegon Nederland in the Amvest Residential Core Fund - refer to note 9 'Investment in associates' for details.

Summarized financial information of material joint ventures

Aegon Nederland considers its investment in the Amvest entities as material joint ventures. The summarized financial information below presents the material joint ventures of the Amvest entities on a 100% basis.

Summarized statement of financial position	31-12-2020			
	Amvest Living & Care Fund	Amvest Development Fund	Amvest Vastgoed B.V.	Total
Cash and cash equivalents	12	29	28	69
Other current assets	2	41	3	46
Total current assets	**14**	**71**	**31**	**115**
Non-current assets	314	359	67	740
Total assets	**327**	**429**	**98**	**855**
Current liabilities	5	75	1	81
Non-current liabilities	-	112	7	120
Total liabilities	**5**	**187**	**8**	**201**
Net assets	**322**	**242**	**90**	**653**
Summarized statement of comprehensive income				
Revenues	15	4	1	19
Profit or loss from continuing operations	21	18	5	44
Income tax expense or income	-	-3	-4	-7
Post-tax profit or loss from continuing operations	**21**	**15**	**1**	**37**
Post-tax profit or loss from discontinued operations	-	-	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income	**21**	**15**	**1**	**37**
				-
Dividends received from joint ventures	7	15	13	34

	31-12-2019				
	Amvest Residential Core Fund	Amvest Living & Care Fund	Amvest Development Fund	Amvest Vastgoed B.V.	Total
Cash and cash equivalents	22	2	60	39	124
Other current assets	5	2	29	6	42
Total current assets	**28**	**4**	**89**	**45**	**166**
Non-current assets	3.627	279	338	73	4.318
Total assets	**3.655**	**284**	**427**	**118**	**4.483**
Current liabilities	94	7	65	8	175
Non-current liabilities	618	-	81	8	707
Total liabilities	**712**	**7**	**146**	**17**	**882**
Net assets	**2.943**	**276**	**281**	**101**	**3.602**
Summarized statement of comprehensive income					
Revenues	94	13	3	1	111
Interest expense	-8	-	-	-	-8
Profit or loss from continuing operations	342	29	23	13	406
Income tax expense or income	-	-	-6	-3	-9
Post-tax profit or loss from continuing operations	**342**	**29**	**17**	**10**	**398**
Post-tax profit or loss from discontinued operations	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**341**	**29**	**17**	**10**	**397**
Dividends received from joint ventures	26	-	24	6	55

A reconciliation of the summarized financial information to the carrying amounts of the joint ventures is as follows:

	2020	2019
Net assets of joint venture as presented above	653	3.602
Group share of net assets of joint venture, excluding fair value adjustments	327	1.159
Carrying amount of investments in joint ventures	**327**	**1.159**

Of the non-current assets in the table with 'Summarized financial information of material joint ventures', EUR 316 million is related to investment property under construction (2019: EUR 332 million).

11. Loans and group loans

	2020	2019
Loan Aegon Derivatives N.V.	1.020	910
Loan Aegon N.V.	-	3
At December 31	**1.020**	**913**
Current	1.020	913
Total	**1.020**	**913**

The loan with Aegon Derivatives is cash collateral received under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Nederland. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled daily. ESTR interest is applied on the variation margin. Clearing costs will be charged on quarterly basis.

The carrying amounts disclosed reasonably approximate fair value at year-end. Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement.

12. Deferred expenses

	2020	2019
At January 1	360	66
Costs deferred	12	2
Amortization through income statement	-23	-3
Impairment losses	-	-65
Increase due to 'DCOR' longevity reinsurance contracts*	-	360
Other	-214	-
At December 31	**135**	**360**
Current	15	21
Non-current	120	339
Total	**135**	**360**

* DCOR means deferred cost of reinsurance, see below for further details on this reinsurance contract.

The impairment losses in 2019 relate to the impairment of the DPAC due to the LAT deficit of Aegon Nederland in 2019. Refer to note 16 'Insurance contracts' for more information on the LAT deficit.

The balance at year-end 2020 and 2019 consists entirely of the deferred cost of reinsurance. In December 2019, Aegon Levensverzekering entered into a longevity reinsurance contract with Canada Life Reinsurance. The contract reinsures a specified portfolio of insurance contracts (EUR 7.6 billion based on measurements in accordance with IFRS4 at the inception of reinsurance contract) against possible future mortality developments. The reinsurer will pay benefits as long as the participants live and receive fixed payments from Aegon Levensverzekering.

The balance at year-end 2020 of EUR 135 million consists of the deferred cost of reinsurance with regard to this reinsurance contract and is amortized over the duration of the underlying insurance contracts. Due to a significant model change and updated parameters in 2020 regarding education factors and mortality experience factors, a one-off adjustment of EUR 214 million was made on this deferred cost of reinsurance, which is also reflected as an adjustment of the same amount in the reinsurance liability. As such, the deferred cost of reinsurance has decreased from EUR 360 million in 2019 to EUR 135 million in 2020.

A net reinsurance liability for an equal amount was recognized initially (as 'Payables out of reinsurance' in note 25 'Other liabilities and accruals'). At year-end 2020, the net value of the reinsurance liability is EUR 132 million higher than the value of the asset. This is due to the impact of the mortality table updates on the reinsurance contract's floating leg. As this update lead to an increase in the value of the liability, the remeasurement was recognised in the income statement. The deferred cost of reinsurance asset is tested for impairment, but no remeasurement gains are recognised on it. Similar to the measurement of reinsured insurance liabilities under IFRS 4 the reinsurance contract components deferred cost of reinsurance and net reinsurance liability are measured based on current non-financial assumptions and non-current contractual financial assumptions.

13. Other assets and receivables

	2020	2019
Real estate held for own use	104	108
Equipment	40	42
Right-of-use assets	30	26
Other	16	-
Non current	**189**	**176**
Investment debtors	885	996
Receivables from policyholders	212	212
Income tax receivable	253	-
Current account with group companies	37	263
Reverse repurchase agreements	-	76
Accrued interest	543	563
Prepaid expenses	17	24
Other	230	164
Provision for doubtful debts	-7	-7
Current	**2.170**	**2.291**
At December 31	**2.359**	**2.466**

The carrying amounts disclosed reasonably approximate the fair values at year-end. Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement.

'Other' consists partly of margin futures held for derivatives (2020: EUR 165 million, 2019: EUR 48 million).

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

13.1. Real estate held for own use

Cost	2020	2019
At January 1	111	104
Revaluations	-2	9
Reversal of depreciation	-2	-2
At December 31	**108**	**111**
Accumulated depreciation		
At January 1	3	3
Depreciation through income statement	2	2
Reversal of depreciation	-2	-2
At December 31	**4**	**3**
Net book value at December 31	**104**	**108**

The entire portfolio of investments in real estate held for own use was appraised in 2020. Key assumptions in determining the fair value were the rental income and the lease term of the property. The useful life of real estate held for own use is between 40 and 50 years. Real estate held for own use has not been provided as collateral for liabilities nor are ownership rights restricted. Depreciation through the income statement is included in note 33 'Commissions and expenses' as 'Administration expenses'.

14. Intangible assets

	2020	2019
Goodwill	97	89
Software	41	32
Other intangible assets	36	31
	174	**152**

2020	Goodwill	Software	Other intangible assets	Total
Cost				
At January 1	89	72	109	271
Additions	8	15	8	31
Other movements	-	-	1	1
At December 31	97	88	118	**302**
Accumulated amortization/impairment				
At January 1	-	40	78	118
Amortization	-	6	4	10
At December 31	**-**	**46**	**82**	**128**
Net book value at December 31	97	41	36	174

2019	Goodwill	Software	Other intangible assets	Total
Cost				
At January 1	85	49	107	242
Additions	-	23	-	23
Other movements	4	-	1	6
At December 31	89	72	109	**271**
Accumulated amortization/impairment				
At January 1	-	19	63	82
Amortization	-	5	3	8
Impairment through income statement	-	17	11	28
Other movements	-	-1	1	-
At December 31	**-**	**40**	**78**	**118**
Net book value at December 31	89	32	31	152

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. Software is generally amortized over an average period of 5 years. At year-end 2020, the remaining average amortization period was 5 years. 'Other intangible assets' mainly consists of customer relationships and is generally amortized over an average period of 10-15 years, at year-end 2020 the remaining average amortization period was 12 years. None of the intangible assets have titles that are restricted or have been pledged as collateral for liabilities. Amortization is included in note 33 'Commissions and expenses' as Administration expenses'. The impairment in 2019 relates to the impairment of the VOBA on insurance assets due to the LAT deficit of Aegon Nederland in 2019.

Impairment testing
For the goodwill and other intangible assets impairment test an impairment model is developed. Goodwill is tested for impairment annually, considering the higher of the value in use and fair value less costs to sell. The cash-generating unit (CGU) that was identified to allocate the goodwill is Robijn Participaties (Robidus Group).

The goodwill impairment test was performed based on the third quarter 2020 financial information. For our impairment testing of intangible assets we have tested whether the carrying value of the Robidus Group is below its recoverable value. The carrying value of EUR 100 million is the net book value of Robidus based on the actual reporting of Robidus per the reporting date. The recoverable value amount of EUR 131 million is determined by discounting the expected cash flows for a five year period based on our MTP[7] Budget, a pre-tax discount rate of 7.6%, a post-tax discount rate of 7.2%, and terminal growth rate at 1% (2019: pre-tax discount rate of 8.2%, a post-tax discount rate of 8.1% and a terminal growth rate at 2%). The discount rate is determined by using the WACC rate consistent with our Economic Framework methodology. This test did not give indications for an impairment of goodwill. The goodwill arises mainly from new customers, future software platform developments, synergies, and assembled workforce.

15. Equity

	2020	2019
Share capital	24	24
Share premium	1.817	1.817
Revaluation reserves	793	811
Retained earnings	4.327	4.123
Shareholders'equity	**6.961**	**6.775**
Non-controlling interests	15	15
Group equity at December 31	**6.976**	**6.790**

There are restrictions on the distribution to shareholders. Share capital, the revaluation reserves and other legal reserves together form the Legal reserves which are restricted from distribution to shareholders. A revaluation reserve is formed for unrealised positive revaluations for subsidiaries, joint ventures, real estate investments, AFS investments, and for positive unrealised revaluation of investments which are illiquid or do not have a frequent market listing. Refer to note 8.2 'Statement of changes in equity' in the 'Statutory financial statements' of Aegon Nederland for more information.

15.1. Share capital

The authorized share capital is EUR 50 million, divided into 100,000 common shares of EUR 500 nominal value each, of which 47,194 shares have been issued and fully paid up. There have been no changes since the previous financial year. Aegon Nederland did not pay dividend to Aegon Europe Holding B.V. in 2019. In 2020 EUR 175 million dividend was paid to Aegon Europe Holding B.V.

Under Dutch law the amount available for distribution as dividend to the shareholder can be calculated as total equity, deducted by the amount of the outstanding share capital (both the paid-in and the not paid-in amount on the share capital) and the amount equal to the legal and statutory reserves.

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

In addition, Aegon Nederland's subsidiary Aegon Bank is not allowed to pay dividend to its shareholder if a distribution would lead to a deterioration of the capital position of Aegon Bank, such that the capital requirements, as prescribed in article 3:62b of the Wft would no longer be complied with. However, notwithstanding article 3:62b of the Wft, Aegon Bank may distribute dividend, subject to the prior notification to the Dutch Central Bank, up to the amount of the Maximum Distributable Amount (MDA), as referred to in article 141(4) of the Capital Requirements Regulation (CRR).

[7] Medium Term Planning

15.2. Share premium

	2020	2019
At January 1	1.817	1.742
Capital contributions	-	75
At December 31	**1.817**	**1.817**

In 2019 Aegon Europe Holding B.V. increased the equity of Aegon Nederland by means of a capital contribution of EUR 75 million as a share premium on shares already issued. This capital contribution was done in cash in order for Aegon Nederland to recapitalize Aegon Bank with the same amount.

15.3. Revaluation reserves

	2020	2019
At January 1	811	1.381
Gross revaluation	28	-502
Net (gains) / losses transferred to income statement	-18	-239
Tax effect	-27	170
At December 31	**793**	**811**

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

	2020	2019
Shares	11	14
Debt securities	3.997	3.358
Real estate held for own use	3	3
Investments in associates	14	12
Total AFS investments	**4.025**	**3.387**
Shadow accounting	-3.232	-2.576
At December 31	**793**	**811**

Refer to note 16.1 ‘Life insurance’ for more information on the LAT deficit and shadow accounting.

15.4. Non-controlling interests

The non-controlling interests relates to the other equity instruments (“participations”) issued by subsidiary Aegon Bank and the minority stake held by Robidus management in Robidus Groep B.V.

As at December 31, 2020, Aegon Bank has issued 1,900 client participations under the brand name Knab with a corresponding value of EUR 9.5 million (2019: 1,900 participations, corresponding value EUR 9.5 million). Based on the specific characteristics the participations qualify as tier 1 capital under the applicable banking regulations. Aegon Bank has the right to redeem all participations starting from 1 November 2022 (if not earlier redeemed pursuant to the program conditions). Participants can sell these participations to Aegon Nederland. At December 31, 2020 Aegon Nederland has bought 339 participations (2019: 220 participations). Aegon Nederland N.V. is legally not required to buy the participations. Subsequently no commitment has to be reported for (potential) future purchases.

16. Insurance contracts

	Note	2020	2019
Life insurance	16.1	43.166	39.554
Non-life insurance			
- Unearned premiums and unexpired risks		50	56
- Outstanding claims		652	624
- Incurred but not reported claims		374	321
	16.2	1.076	1.001
Total insurance contracts at December 31		**44.242**	**40.554**

16.1. Life insurance

Movements during the year:	2020	2019
At January 1	39.554	33.848
Gross premiums	710	901
Unwind of discount / interest credited	925	919
Insurance liabilities released	-1.949	-1.870
Changes in valuation of expected future benefits	3.461	4.645
Portfolio transfers and acquisitions	-29	-8
Expense loadings released	-83	-88
Net exchange differences	-	1
Movement unamortized interest rate contracts	248	609
Other	328	597
At December 31	**43.166**	**39.554**

Line item ‘other’ mainly consists of pension contracts which upon renewal were transferred from ‘Insurance contracts for account of policyholders’ to ‘Insurance contracts’.

The life insurance contract liabilities increased by EUR 3,612 million (2019: increase of EUR 5,706 million). The change in valuation of expected future benefits mainly relates to an increased value of guarantees due to decreased interest rates and the adjustment of the LAT deficit.

The LAT deficit in the insurance liability at year-end 2020 amounts to EUR 6,967 million (2019: EUR 5,049 million). Aegon Nederland applies shadow accounting and because of this EUR 4,477 million (EUR 3,232 million after tax) was booked from the revaluation reserves to the insurance liabilities (2019: EUR 3,294 million, after tax EUR 2,576 million)).

In 2019 Aegon Nederland also had a LAT deficit and then EUR 1,587 million was recorded as an expense in the account ‘Policyholder claims and benefits. In 2020 an additional EUR 903 million was recorded as an expense in the same account.

Due to the LAT deficit in 2020, the insurance liabilities as per the end of 2020, as well as 2019, are de facto measured at accounting principles used in the liability adequacy test.

Deferred interest rebates

Movement unamortized interest rate contracts	2020	2019
At January 1	2.194	1.585
Rebates or future interest compensation granted	423	433
Amortization through income statement	-175	-134
Other	-	310
At December 31	**2.442**	**2.194**

Line item 'other' in 2019 mainly consists of pension contracts which upon renewal were transferred from 'Insurance contracts for account of policyholders' to 'Insurance contracts'.

The deferred interest contracts form part of the insurance liabilities of Aegon Nederland. As a result of the low interest rate environment, policyholders paid a surplus on the premium where previously a premium discount was given.

16.2. Non-life insurance

	2020	2019
Accident and health insurance	962	886
Property and casualty	114	115
Total	**1.076**	**1.001**

Movements during the year:	2020	2019
At January 1	1.001	996
Gross premiums - existing and new business	333	317
Changes in unearned premiums	-339	-322
Changes in incurred but not reported claims	52	-32
Unwind of discount / interest credited	8	9
Incurred related to current year	162	174
Incurred related to prior years	60	63
Release for claims settled current year	-81	-103
Release for claims settled prior years	-120	-102
At December 31	**1.076**	**1.001**

Run off result	2020	2019
Accident and health insurance	20	28
Property and casualty	-3	11
	17	**39**

A net release from the non-life claims reserve is shown as a negative figure and a net addition as a positive figure.

Gross (before reinsurance) claim history in EUR million

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	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total
Year-end financial year	300	277	317	296	299	309	300	311	312	294	
After 1 year	-	285	283	275	275	322	331	344	332	311	
After 2 years	-	-	277	255	249	295	323	318	312	293	
After 3 years	-	-	-	251	240	275	309	307	303	280	
After 4 years	-	-	-	-	230	270	289	285	274	278	
After 5 years	-	-	-	-	-	267	289	279	259	253	
After 6 years	-	-	-	-	-	-	284	275	256	247	
After 7 years	-	-	-	-	-	-	-	272	262	240	
After 8 years	-	-	-	-	-	-	-	-	260	234	
After 9 years	-	-	-	-	-	-	-	-	-	235	
Estimated cumulative claims	**300**	**285**	**277**	**251**	**230**	**267**	**284**	**272**	**260**	**235**	
Cumulative payments	-81	-149	-152	-150	-150	-203	-224	-228	-222	-207	
	219	**136**	**125**	**101**	**80**	**64**	**60**	**44**	**38**	**28**	**895**
Outstanding claims prior year (<2011)											130
Outstanding claims in financial statements (including IBNR)											**1.025**

Net (after reinsurance) claims history in EUR million

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total
Year-end financial year	286	265	308	296	296	309	298	304	307	294	
After 1 year	-	273	273	274	271	322	331	337	328	309	
After 2 years	-	-	268	254	246	295	322	313	309	291	
After 3 years	-	-	-	250	236	274	308	304	301	279	
After 4 years	-	-	-	-	228	269	286	282	270	276	
After 5 years	-	-	-	-	-	266	286	276	257	252	
After 6 years	-	-	-	-	-	-	282	272	255	247	
After 7 years	-	-	-	-	-	-	-	269	261	240	
After 8 years	-	-	-	-	-	-	-	-	261	234	
After 9 years	-	-	-	-	-	-	-	-	-	234	
Estimated cumulative claims	**286**	**273**	**268**	**250**	**228**	**266**	**282**	**269**	**261**	**234**	
Cumulative payments	-73	-144	-148	-150	-147	-202	-223	-225	-222	-209	
	213	**129**	**120**	**100**	**81**	**64**	**59**	**44**	**39**	**25**	**874**
Outstanding claims prior year (<2011)											129
Outstanding claims in financial statements (including IBNR)											**1.003**

17. Insurance contracts for account of policyholders

Movements during the year:	2020	2019
At January 1	25.328	23.855
Gross premiums	625	567
Unwind of discount / interest credited	1.200	1.924
Change in unit linked account value	78	707
Insurance liabilities released	-1.381	-1.561
Changes in valuation of expected future benefits	-262	866
Portfolio transfers and acquisitions	-64	-10
Expense loadings released	-110	-110
Other	-330	-909
At December 31	**25.085**	**25.328**

Line item 'other' mainly consists of pension contracts which upon renewal were transferred from 'Insurance contracts for account of policyholders' to 'Insurance contracts'.

18. Guarantees

For financial reporting purposes Aegon Nederland distinguishes between two types of minimum guarantees:

- *Financial guarantees* - These guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to note 18.1 'Financial guarantees');
- *Minimum investment return guarantees* - These guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (refer to note 18.2 'Minimum investment return guarantees).

18.1. Financial guarantees

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

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

	2020	2019
At January 1	1.735	1.678
Changes in valuation of expected future benefits	297	57
At December 31	**2.032**	**1.735**
Account value	8.968	8.626
Net amount at risk	2.427	2.002

Balances are included in the derivatives liabilities, see note 8 'Derivatives' for more information. Aegon Nederland provides guarantees to its customers on expiry date for certain insurance contracts. In order to mitigate the risks related to the guarantees Aegon Nederland has setup a hedging program. Aegon Nederland does not use reinsurance in order to mitigate risks related to insurance contracts with a guarantee component. The net amount at risk represents the sum of the positive differences between the discounted maximum amount payable under the guarantees and the account value, which is the actual fund value of the policyholder.

18.2. Minimum investment return guarantees

The traditional life and pension products offered by Aegon Nederland include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of traditional accumulation products written. Older generations contain a 4% guarantee; in 1999 the guarantee decreased to 3% and in 2013 the guarantee decreased to 0%.

The traditional group pension contracts offered by Aegon Nederland include large group insurance contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the maximum of 0% and the realized return on an asset portfolio specified in the policy conditions adjusted for technical interest rates ranging from 3% to 4%. If the adjusted return is negative, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses within the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period. These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts. The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts, net of the present value of the expected future premiums that are received to cover these guarantees.

	2020	2019
At January 1	6.422	5.063
Changes in valuation of expected future benefits	1.551	1.358
At December 31	**7.973**	**6.422**
Account value	20.202	19.985
Net amount at risk	7.931	6.335

The table represents the guaranteed minimum investment return. Balances are included in the ‘Insurance contracts’ (note 16). Changes in valuation of expected future benefits mainly comprise the effect of guarantees from new contracts, releases related to expired out-of-the-money guarantees and fair value movements during the reporting year. The account value reflects the liability value of the insurance contracts as a whole. The net amount at risk represents the sum of the differences between the guaranteed and actual amount that credited to the policyholders. For individual policies only positive differences are included, for Group pensions contracts carry forwards of negative differences are recognized.

18.3. Fair value measurement of guarantees

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

	2020	2019
Effect of guarantees on earnings before tax:	-1.901	-1.668
Main drivers of this effect:		
- results related to movement in risk free interest rates	-2.224	-2.339
- results related to movement in equity markets	38	436
- results related to movement in own credit spread	146	-146
- other	139	381
Total	**-1.901**	**-1.668**

'Other' in 2020 mainly relates to the result on the guarantees derivatives that are backing the Aegon pension scheme liabilities, which are not part of the hedge (EUR 168 million in 2020, EUR 152 million in 2019), which is also mainly driven by interest developments. In 2019 the amount disclosed in ‘Other’ also related to the performance of underlying assets (EUR 180 million).

	2020	2019
Hedges related to these guarantees contributed to earnings before tax:	2.045	2.102

19. Savings deposits

	2020	2019
At January 1	11.517	10.586
Deposits	15.453	12.494
Withdrawals	-14.492	-11.634
Interest credited	63	72
At December 31	**12.540**	**11.517**
Current	10.092	9.281
Non-current	2.448	2.236
Total	**12.540**	**11.517**

The savings deposits comprise EUR 987 million of savings related to 'Bankspaarhypotheken' (2019: EUR 893 million). The received deposits related to the 'Bankspaarhypotheken' are directly invested in a sub participation of the mortgage of the specific client. The sub participation in the mortgages and the related deposits are shown gross in the financial statements as there is no intention to (directly) settle the deposit with the mortgage.

The carrying amounts disclosed reasonably approximate the fair values at year-end. Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement.

20. Investment contracts

	2020	2019
At January 1	199	209
Withdrawals	-8	-10
At December 31	**191**	**199**

This item relates to the Verzekeringsgroep Metaalindustrie (VGMI) contract and is repaid evenly over 26 years starting from 2012. The fair value at December 31, 2020 is EUR 190 million (2019: EUR 193 million). Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement.

21. Borrowings and group borrowings

	Note	2020	2019
Debentures and other loans	21.1	5.227	5.785
Group borrowings	21.2	5.641	3.100
At December 31		**10.868**	**8.885**
Current		6.591	5.425
Non-current		4.277	3.460
Total		**10.868**	**8.885**

The carrying amounts disclosed reasonably approximate fair value at year-end. Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement of the 'Debentures and other loans'.

21.1. Debentures and other long-term loans

	Coupon rate	Coupon rate	Issue/ maturity	FORD	Legal maturity date	2020	2019
EUR 1.443 million 'SAECURE 15' RMBS Note	floating	quarterly	2014 / 20	Jan. 2020	Jan. 2092	-	917
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
EUR 500 million Senior Non-Preferred Notes	fixed (0,625%)	Annually	2019 / 24	-	Jun. 2024	498	497
EUR 750 million Conditional Pass Through Covered Bond	fixed (0,25%)	Annually	2015 / 20	-	Dec. 2020	-	749
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,25%)	Annually	2016 / 23	-	May 2023	498	498
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,75%)	Annually	2017 / 27	-	June 2027	491	489
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,38%)	Annually	2017 / 24	-	Nov. 2024	498	498
EUR 500 million Conditional Pass Through Covered Bond	fixed (0,01%)	Annually	2020 / 25	-	Nov. 2025	508	-
Loan facilities warehouse mortgage loans	floating	monthly	- / 2022	-	-	802	333
Loan facilities pre funding mortgage loans	floating	monthly	- / 2020	-	-	743	484
Other	-	-	-	-	-	9	9
At December 31						**5.227**	**5.785**

	2020	2019
Current	950	2.325
Non-current	4.277	3.460
Total	**5.227**	**5.785**

<u>Residential mortgage backed securities (RMBS)</u>
The net proceeds of the RMBS notes are used to finance the Dutch mortgage portfolio. The expected maturity of the RMBS notes is derived from the FORD which stands for the first optional redemption date. At this date Aegon Nederland has the first right to repurchase the underlying mortgages from the 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 general account investments of Aegon Nederland. In February 2020 the mortgages from Saecure 15 were repurchased at FORD.

Covered Bond

In 2015, Aegon Bank entered into a EUR 5 billion Conditional Pass-Through Covered Bond Program. Under this Program, the payment of interest and principal is guaranteed by an Aegon administered structured entity, Aegon Conditional Pass-Through Covered Bond Company B.V. (the Company). In order for the Company to fulfil its guarantee, Aegon Bank legally transfers mortgage loans originated by Aegon affiliates to the Company. The Company is consolidated by Aegon Nederland. In November 2020, Aegon Bank priced its fifth EUR 500 million 5 year Covered bond with a yield of -/- 0.362%. Furthermore the EUR 750 million first inaugural Covered bond was repaid in December 2020.

Senior Non Preferred Notes

In 2019 Aegon Bank issued EUR 500 million of Senior Non-Preferred notes (SNP). These SNP notes qualify as MREL (Minimum Required Eligible Liabilities) eligible notes. Based on the MREL regulation the National Resolution Authority imposes a Minimum Requirement for own funds and Eligible Liabilities. If a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the bank. The notes may only be redeemed at the option of the Issuer for tax reasons and upon the occurrence of an MREL Disqualification Event. Such an "MREL Disqualification Event" shall occur if, as a result any amendment to, or change in, any Applicable MREL Regulations, or any change in the application or official interpretation of any Applicable MREL Regulations, in any such case becoming effective on or after the Issue Date of the notes, the notes are or (in the opinion of the Issuer or the Competent Authority) are likely to become fully or partially excluded from the Issuer's MREL Eligible Liabilities.

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 facilities 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.

21.2. Group borrowings

	2020	2019
Loan Aegon Derivatives N.V.	5.247	2.866
Loan Aegon N.V.	394	233
At December 31	**5.641**	**3.100**
Current	5.641	3.100
Total	**5.641**	**3.100**

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

The loan with Aegon N.V. relates for EUR 352 million to the loan facility largely for temporarily funding of the mortgage portfolio (2019: EUR 225 million). In total, EUR 500 million is available under this facility. The facility has a floating interest and is secured by mortgages. The remainder of this loan represent cash collateral received under foreign exchange derivative transactions. Aegon N.V. settles this collateral on behalf of Aegon Nederland. The derivative transactions are for ordinary operations. The collateral is the consequence of movements in market values on derivatives and is settled on a daily basis.

22. Provisions

Movements in provisions

2020	Restructuring	Legal procedures	Other	Total 2020
At January 1	25	10	39	74
Additions charged to earnings	15	45	-	60
Used during the year	-17	-7	-4	-28
At December 31	**23**	**48**	**35**	**106**

2019	Restructuring	Legal procedures	Other	Total 2019
At January 1	3	12	28	43
Additions charged to earnings	30	-	3	34
Unused amounts reversed through the income statement	-	-2	-	-2
Used during the year	-9	-	-1	-10
Other movements	-	-	9	9
At December 31	**25**	**10**	**39**	**74**

	2020	2019
Current	67	17
Non-current	40	56
	106	**74**

The restructuring provision relates to the reorganization of Aegon Nederland. The increase of the provision for legal procedures relates to the agreement between Aegon Bank and LeaseProces B.V.. In December 2020 Aegon Bank reached a signed letter of intent on a settlement with Leaseproces B.V. for claims regarding Vliegwiel and Sprintplan. The agreement is about the level of compensation customers will receive for these products. It is management's intention to finalize discussions, leading to a signed agreement in the near future.The settlement is subject to conditions precedent and further operational details are to be worked out. Full execution of the agreement is expected in 2021.

23. Defined benefit liabilities

Movements during the year in defined benefit plans

	2020	2019
At January 1	3.413	2.967
Defined benefit expenses	36	144
Remeasurement of defined benefit plans	290	464
Contributions by plan participants	-	8
Benefits paid	-84	-81
Other	2	-89
Retirement benefit plans	**3.658**	**3.413**
Other post-employment benefit plans *	61	65
At December 31	**3.718**	**3.479**

(*)The other post-employment benefit plans mainly relates to the post-retirement medical plan of Aegon Nederland that contributes to the health care coverage of employees and beneficiaries after retirement.

'Other' in 2019 relates mainly to the plan amendments per January 1, 2020 (see section 'Defined benefit plans' in this note), which resulted in a release of EUR 101 million as a past service cost at December 31, 2019. This release is accounted for in note 31 'Other income' and is mainly driven by the effect of no longer taking into account future salary increases under the new defined contribution plan.

Amounts recognized in the statement of financial position
The table below shows the movements during the year of the present value of the wholly unfunded obligations.

	2020	2019
At January 1	3.479	3.032
Current year service costs	7	96
Interest expense (based on discount rate)	32	52
Remeasurement of net defined liability:		
- Actuarial gains and losses from changes in demographic assumptions	-8	-14
- Actuarial gains and losses from changes in financial assumptions	294	480
Past service cost	-	-1
Contributions by plan participants	-	8
Benefits paid	-87	-84
Other	2	-89
At December 31	**3.718**	**3.479**

Defined benefit expenses
Defined benefit expenses are included in note 33 'Commissions and expenses' in the income statement.

	2020	2019
Current year service cost	4	95
Past service cost	-	-1
Interest expenses	32	51
Retirement benefit plans	**36**	**144**
Other post-employment benefit plans	3	2
Total defined benefit expenses	**39**	**146**

The decrease in 'total defined benefit expenses' in 2020 is explained by the plan amendments as at January 1, 2020 (see below).

Retirement benefit plans
Aegon Nederland has a number of defined benefit plans and defined contribution plans.

Defined benefit plans
The defined benefit plans are subject to Dutch Pension regulations and governed by the Board of Directors of Aegon Nederland. The Board of Directors has the full power and discretion to administer the plan including developing investment policy and managing assets for the plans (although these assets do not qualify as 'plan assets' as defined by IFRS), deciding questions related to eligibility and benefit amounts, and any disputes that may arise from plan participants and for complying with the plan provisions, and legal requirements related to the plan and its operation. Aegon Nederland runs, in principle, full actuarial and investment risk regarding the defined benefit plans, this includes the risks of low interest rates, low returns and increased longevity. A part of this risk can be attributed to plan participants by lowering indexation or by increasing employee contributions.

As all pension obligations relating to the defined benefit plans are insured at subsidiary Aegon Levensverzekering almost all assets held by Aegon Nederland backing retirement benefits of EUR 2,845 million (2019: EUR 2,736 million) do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets does not form part of the calculation of defined benefit expenses.

Investment strategies are established based on asset and liability studies. The overall goal is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk. These studies use for example return objectives and various investment instruments. Investment restrictions are updated regularly and they result in asset allocation mix and hedges.

As at December 31, 2019 the defined benefit plan of Aegon Nederland, which is administered by Aegon Levensverzekering, was amended. As of January 1, 2020, this plan is closed for new members and there will be no further accrual of benefits to existing members. Entitlements before January 1, 2020 will remain unchanged and the indexation agreements for those accruals will remain in force.

The contributions to the retirement defined benefit plan of Aegon Nederland were paid by both the employees and the employer, with the employer contribution being variable[8]. The benefits covered are retirement benefits, disability, death and survivor pension and are based on an average wage system. The defined benefit plans were unfunded by EUR 3.658 million at December 31, 2020. (2019: EUR 3,413 million). The defined benefit plans are largely backed by investments, although these assets do not qualify as 'plan assets' as defined by IFRS. The average remaining duration of the defined benefits obligation is 22.5 years (2019: 21.9 years).

Defined contribution plans
As of January 1, 2020, all contributions, both for new and existing employees, are made to the new individual defined contribution pension scheme. The new Aegon Pension Plan is administered and executed by Aegon Cappital. The contributions to the defined contribution pension scheme are paid by both the employees and the employer, with the employer contribution being variable. Aegon Nederland pays the premiums for the insured mortality and disability risks.

The defined contribution expenses are included in note 33 'Commissions and expenses' in the income statement.

[8]Aegon Nederland deducts employee contributions from the total pension expenses.

Actuarial assumptions used to determine the defined benefit obligations at year-end
The principal actuarial assumptions that apply for the year-ended December 31 are as follows:

	31-12-2020	31-12-2019
Demographic actuarial assumptions:		
Mortality	Aegon NL mortality table*	Aegon NL mortality table*
Financial actuarial assumptions:		
Discount rate	0.51%	0.94%
Wage inflation**	curve 2020	curve 2019
Indexation**	55.6% of curve 2020	59.2% of curve 2019

*Based on Dutch Actuarial Society 2020 prospective mortality table with minor methodology adjustments.
These tables are regularly assessed against the most recent mortality trends.
** Based on Dutch Consumer Price Index

A change of these assumptions of the retirement benefit plan as indicated in the table below would have the following effects per year-end:

Estimate approximate effects on the defined benefit obligation

	2020	2019
Demographic actuarial assumptions:		
Mortality rate: shock + 10%	-110	-100
Mortality rate: shock - 10%	124	112
Financial actuarial assumptions:		
Discount rate: shock + 100 basis points	-703	-645
Discount rate: shock - 100 basis points	977	893
Wage inflation: shock + 100 basis points	-	1
Wage inflation: shock - 100 basis points	-	-1
Indexation: shock + 25 basis points	213	194
Indexation: shock - 25 basis points	-192	-177

The above sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognized within the statement of financial position.

Mortality
The mortality table used is the projected Aegon table which is annually updated for experience results. Changing the mortality rates changes the cash flow expectations. Increasing (decreasing) the mortality rates for one year decreases (increases) the defined benefit obligation. Using the same discount rate, but other expected cash flows determines the quantitative effect.

Discount rate
The discount rate used in determining the defined benefit obligation is based on high quality (AA rated) corporate bonds. Increasing (decreasing) the discount rate decreases (increases) the value of the defined benefit obligation.

Wage inflation rate
The benefits covered under the plans are based on an average wage system. This curve used as inflation rate is the proxy for the Dutch Consumer Price Index in the projections of the defined benefit obligation. Changing the wage inflation rate changes the expected benefits. Increasing (decreasing) the wage inflation rate increases (decreases) the value of the defined benefit obligation. However, as a result of the plan amendment per January 1, 2020, this impact is relatively small as of 2019.

Indexation
The benefits covered under the plans are chiefly dependent on price inflation. This curve used as indexation rate is a percentage of the proxy for the Dutch Consumer Price Index in the projections of the defined benefit obligation. The percentage indexation is determined taking into account the price inflation curve and the amount available in the indexation depot. Increasing (decreasing) indexation increases (decreases) the value of the defined benefit obligation.

Changes in actuarial assumptions

Change of discount rate
The discount rate changed from 0.94% to 0.51%. This decrease is mainly caused by market movements in the past year. The yield of high quality corporate bonds dropped significantly during the year which pulls the IAS19 curve down. The movement in yield is the combined result of decreased interest rates at all maturities (a difference of about 48 basis points at 10 years, 62 basis points at 20 years and 68 basis points at 30 years) and increased spreads on the relevant bonds.

Change of mortality rates
During 2020 the mortality table was adjusted, the Aegon 2020 mortality table. Also the experience adjustments have been updated during 2020. This results in a loss on the defined benefit obligation in 2020.

Change of indexation benefits of active and inactive participants
Last year the expected indexation rate was 59.2% of the price inflation curve. This percentage is estimated based on the indexation depot, since indexation is conditional on the means available from the indexation depot. Following the price inflation curve as per December 31, 2020, the expected indexation rate has been updated based on the expected indexation depot as per December 1, 2020. The resulting indexation rate is 55.6% of the price inflation curve. As a consequence of the update of the indexation rate a gain on the defined benefit obligation arises during 2020.

<u>Estimated future benefit payments</u>

	Retirement benefit plans	Other post-empl. benefit plans	Total
2021	86	4	90
2022	87	4	91
2023	88	4	92
2024	89	4	93
2025	90	3	93
2026-2030	464	15	479

24. Deferred tax

	2020	2019
Deferred tax assets	2.119	1.639
Deferred tax liabilities	2.396	1.552
Net deferred tax liability / (asset) at December 31	**277**	**-87**

Movement in deferred tax

2020	Real estate	Financial assets	Insurance contracts	Defined benefit plan	Other	Total
At January 1	520	1.032	-1.544	-7	-88	-87
Charged to income statement	128	295	-151	167	21	460
Charged to equity	-	386	-358	-126	-	-97
At December 31	**648**	**1.713**	**-2.052**	**34**	**-67**	**277**

2019	Real estate	Financial assets	Insurance contracts	Defined benefit plan	Other	Total
At January 1	437	562	-783	7	13	236
Charged to income statement	82	226	-346	101	-101	-38
Charged to equity	-	245	-415	-115	-	-285
At December 31	**520**	**1.032**	**-1.544**	**-7**	**-88**	**-87**

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.

Deferred tax liabilities for prepayments and other taxes payable on the undistributed profits of certain subsidiaries are not recognized. These undistributed profits amounted to EUR 1,759 million, with a potential tax claim of EUR 440 million.

Loss carry forward
At year-end, there were no deferred tax assets for pre-consolidation losses available for carry forward against future taxable profits (2019: nil).

25. Other liabilities and accruals

	2020	2019
Payables due to policyholders	381	499
Payables out of reinsurance	318	416
Investment creditors	360	255
Income tax payable	-	85
Social security and taxes payable	73	69
Current account with group companies	3	3
Cash collateral	-	76
Variable compensation	9	11
Accrued interest	116	188
Lease liabilities	32	26
Other creditors	507	818
At December 31	**1.800**	**2.445**
Current	1.518	2.071
Non-current	282	374
Total	**1.800**	**2.445**

The payables out of reinsurance mainly relates to the longevity reinsurance contract with Canada Life Reinsurance, Aegon Levensverzekering entered into. Refer to note 12 'Deferred expenses' for more information.

Included in the 'Other creditors' is EUR 105 million that Aegon Bank borrowed from the European Central Bank, under its Long Term Refinancing Operation (LTRO) program (2019: nil). The borrowing has a 3 months term.

With the exception to the measurement of the longevity reinsurance contract liability with Canada Life Reinsurance (year-end 2020: EUR 267 million, year-end 2019: EUR 360 million), the carrying amounts disclosed reasonably approximate the fair values at year-end, given the predominantly current nature of the other liabilities. The fair value of the longevity reinsurance contract under the Solvency II framework, which is the present value of the reinsurance fees and the present value of the fixed minus the floating leg, is EUR 418 million (2019: EUR 525 million).

Refer to note 38 'Fair value of assets and liabilities' for information on fair value measurement.

In the cash flow statement the movement in this account in the book year is disclosed the line items 'Accrued expenses and other liabilities' and 'Net change in cash collateral'.

26. Premium income and premiums paid to reinsurers

	2020		2019	
	Gross	Reinsurance	Gross	Reinsurance
Life	1.619	35	1.759	13
Non-life	375	28	358	19
Total	**1.994**	**63**	**2.117**	**32**

The Life premiums decreased in 2020 as the individual life portfolio is shrinking and new contribution plans are no longer offered by Aegon Levensverzekering, but are placed in Aegon Cappital, a subsidiary of Aegon Nederland. In 2019, the premium income was positively affected by a large buy-out deal. The Non-life premiums increased, mainly due to higher sales on products such as sick leave and WIA Excedent in the 'Accidents and Health' segment.

Non-Life premiums split by branch

	2020	2019
Accidents and illness	245	228
Motor vehicles	17	17
Motor vehicles civil liability	23	23
Fire	32	31
Property - other damages	30	31
General liability	13	13
Legal aid	13	13
Relief operations	3	2
Total	**375**	**358**

27. Investment income

	2020	2019
Investment income related to general account	1.701	1.776
Investment income for account of policyholders	387	455
Total	**2.088**	**2.231**

Investment income consists of:

	2020	2019
Interest income out of:		
- Debt securities	566	578
- Loans	1.192	1.257
- Other investments	42	86
Dividend income from shares	212	239
Rental income from real estate	75	70
Total	**2.088**	**2.231**
Interest income accrued on impaired financial assets	1	2
Interest income on financial assets not carried at FVTPL	1.550	1.605

Investment income from financial assets held for general account:

	2020	2019
Available-for-sale	319	316
Loans	1.193	1.260
Fair value through profit or loss	73	47
Real estate	75	70
Derivatives	3	54
Other	38	30
Total	**1.701**	**1.776**

28. Fee and commission income

	2020	2019
Commissions from intermediary activities	70	62
Fee income from asset management	64	50
Administration fee income	121	125
Total	**255**	**237**

29. Income from reinsurance ceded

The negative income is largely explained by impact of the update of the population mortality model on the longevity reinsurance contract with Canada Life Reinsurance. Refer to note 3.1 'Changes in estimates' for more information on this.

30. Results from financial transactions

	2020	2019
Net fair value change general account financial investments FVTPL, other than derivatives	-47	40
Realized gains / (losses) on financial investments	19	246
Gains / (losses) on investments in real estate	132	166
Net fair value change of derivatives	2.679	2.337
Net fair value change financial assets FVTPL for account of policyholder	884	2.974
Net foreign currency gains / (losses)	-126	59
Total	**3.539**	**5.822**

The difference of EUR 38 million between the amount disclosed here and the amount disclosed in the cash flow statement as non-cash item relates to the cash compensation received through the clearing house for any resulting impact on the valuation of derivatives due to the discount rate switch from EONIA (Euro Overnight Index Average) to ESTR (Euro Short-Term Rate).

Realized gains and losses on financial investments

	2020	2019
Shares (AFS)	9	13
Debt securities and money market investments (AFS)	9	226
Loans	-	7
Total	**19**	**246**

Net fair value change of derivatives comprise:

	2020	2019
Net fair value change economic hedges - no hedge accounting applied	2.970	2.397
Net fair value change bifurcated embedded derivatives	-314	-79
Ineffective portion hedge transactions - hedge accounting applied	23	20
Total	**2.679**	**2.337**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2020	2019
Fair value change on hedging instruments in a fair value hedge	-256	-354
Fair value change on hedged items in fair value hedge	279	374
Ineffectiveness fair value hedge	**23**	**20**

Net fair value change on financial assets at FVTPL for account of policyholders

	2020	2019
Shares	94	1.666
Debt securities and money market investments	-52	273
Other	842	1.036
Total	**884**	**2.974**

31. Other income

This item consists mainly of releases relating to the plan amendment of the defined pension plan, EUR 7 mln in 2020 (2019: EUR 100 mln). Pension arrangements for Aegon Nederland employees changed towards defined contribution on January 1, 2020 and for Nedasco employees on January 1, 2021. Furthermore in 2019 the sale of the Slovakian entity Aegon d.s.s. a.s., (a subsidiary of Aegon Levensverzekering) took place, on which a book gain of EUR 10 million was realized.

32. Policyholder claims and benefits

	2020	2019
Claims and benefits paid to policyholders - life insurance	3.043	3.211
Claims and benefits paid to policyholders - non life insurance	201	205
Change in valuation of liabilities for insurance contracts	2.709	5.526
Total	**5.953**	**8.942**

Policyholders claims and benefits, includes claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. The changes in valuation of liabilities for insurance and investment contracts is the result of fair value changes of the guarantee provision and insurance contracts for account of policyholders as a result of decrease in interest rates, the net fair value change of investments for account of policyholders (refer to note 30 'Results from financial transactions'), as well as the loss recorded as a result of the LAT deficit (refer to note 16.1 'Life insurance' for more information).

The change in valuation of liabilities for insurance and investment contracts is highly sensitive of financial market movements. In 2020 a loss of EUR 1,424 million (2019: loss of EUR 1,297 million) regarding fair value movements of guarantees was recorded. This change is due to the increase of the guarantee provision, as a result of lower interest rates in 2020.

33. Commissions and expenses

	2020	2019
Commissions	49	49
Employee expenses	405	490
Administration expenses	408	365
Other	-	2
Total	**862**	**906**

The decrease in commissions and expenses is largely explained by lower post-employment benefit costs due to the amendment of the Aegon pension scheme per January 1, 2020.

Employee expenses

	2020	2019
Salaries	211	215
Post-employment benefit costs	62	136
Social security charges	28	31
Other personnel costs	104	106
Variable compensation	-	1
Total	**405**	**490**

Employees
The average number of employees is 3,550, including 176 agents (2019: 3,582, including 211 agents), all working in the Netherlands.

Variable Compensation Plans
Members of the Board of Directors as well as selected jobholders have been granted Variable compensation, in accordance with the rules applicable to them and their interpretations by relevant authorities. Of these, the Dutch 2015 Act on compensation in the financial sector (Wet beloningsbeleid financiële ondernemingen Wft) and Solvency II are prominent examples. The rules have been adopted in the Aegon Group Global Remuneration Framework (AGGRF) drawn up by Aegon N.V., and have been consistently applied within Aegon Nederland. After the performance period, and based on the framework, variable compensation, if any, is partially made available and partly deferred. Variable compensation is paid in both cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam during the period between December 15, preceding a plan year and January 15, of the plan year. The performance indicators apply over a performance period of one year and consist of Aegon N.V. and/or Aegon Nederland targets (both financial and non-financial) set by the Supervisory Board or the remuneration committee and personal/strategic targets. The conditional grant of variable compensation is also dependent on continued employment of the individual employee to whom the rights have been granted. An ex-post assessment is applicable to determine whether allocated (unvested) variable compensation should become unconditional or should be adjusted. In addition, for Members of the Board of Directors, Aegon Nederland's Supervisory Board has the right to reclaim variable compensation that has already been paid out or vested.

The deferred shares of the variable compensation award cliff-vest three years after allocation, while the deferred parts for members of the Board of Directors tranche-vest during a three-year period after allocation. Before each vesting moment, the Supervisory Board can decide to adjust an award downwards based on the annual ex-post risk assessment, which takes into account significant and exceptional circumstances which were not (sufficiently) reflected in the initial performance assessment.

In compliance with regulations under Dutch law, no transactions regarding the shares may be exercised in blackout periods.

All share plans are recognized in the financial statements of Aegon Nederland as cash-settled share based payment transactions since all grants are settled by Aegon Nederland in Aegon N.V. shares via the current account with Aegon N.V. Aegon Nederland uses a net settlement option for participants to meet withholding income tax obligations on vested tranches. This means that Aegon will not sell shares on the market, but hold these shares within Aegon and settle directly with the tax authorities in cash rather than in shares.

The liability related to the above mentioned plan (both cash and Aegon N.V. shares) is disclosed in note 25 ‘Other liabilities and accruals’. The related expenses are disclosed in note 33 ‘Commission and expenses’.

Aegon Nederland provides for the full provision of the Variable Compensation Plans (both for Aegon N.V. and Aegon Nederland) and recharges the Variable Compensation Plans for employees that work solely for Aegon N.V. to Aegon N.V.

Shares as fixed compensation
The CEO of Aegon Nederland receives part of his fixed compensation in Aegon shares each pay round, next to receiving fixed compensation in cash. The grant price of these shares is equal to the volume weighted average price (VWAP) on the Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of the plan year. Once allocated these shares are unconditional and do not depend on the continued employment of the employee. However, the shares are deferred and cliff-vest three years after allocation as soon as the Integrated Annual Report of Aegon N.V. has been adopted by the shareholders

at the Annual General Meeting in the last deferral year. Employees are not eligible to receive dividend during the deferral period.

Remuneration Board of Directors
Current and former members of the Board of Directors are regarded as key management personnel. The remuneration for current and former directors charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code is set out below (amounts in euro).

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 pension premium in 2019 relates to premiums paid for the defined benefit plan, the pension premium in 2020 relates to the premiums paid for the defined contribution plan.

Variable compensation for members of the Board of Directors
The following table shows the rights granted for active plans.

Variable compensation plan of year:	Conditionally granted shares	Conditionally granted cash	Actual shares granted	Actual cash granted	Transferred in period
2020	57.715	EUR 0.2 mln	*	*	2021-2024
2019	54.666	EUR 0.1 mln	52.253	EUR 0.1 mln	2020-2023
2018	31.820	EUR 0.2 mln	39.844	EUR 0.2 mln	2019-2022
2017	33.040	EUR 0.2 mln	33.273	EUR 0.2 mln	2018-2021
2016	81.450	EUR 0.4 mln	70.042	EUR 0.4 mln	2017-2020

* To be determined in 2021. Shares allocated as fixed compensation are unconditionally and are not included in this table.

The following tables give information on the granted shares for the Board of Directors.

Movements during the year	2020	2019
Unvested at January 1	100.385	100.004
Reversal conditionally granted	-54.666	-31.820
Number of shares conditionally granted *	57.715	54.666
Number of shares allocated**	90.755	39.844
Number of shares forfeited	-	-6.255
Number of shares vested	-27.088	-56.054
Unvested at December 31	**167.101**	**100.385**

* To be determined in 2021 respectively 2020.
** 'Number of shares allocated' consists of the shares allocated during the calender year in relation to the previous plan year as well as the shares allocated as fixed compensation.

Information on share prices used for the grant (in EUR) by plan year

	Fair value of shares at grant date in EUR	Average share price used for grant in EUR
2020	2.785 to 3.796	4.083
2019	2.741 to 3.737	4.162
2018	4.143 to 5.054	5.848
2017	4.040 to 4.933	4.933
2016	3.990 to 4.898	5.129

Unvested shares by plan year	2020	2019
2020*	96.217	-
2019	52.253	54.666
2018	12.602	18.903
2017	6.029	12.058
2016	-	14.758
Unvested at December 31	**167.101**	**100.385**

* This number is including the shares allocated as fixed compensation.

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.

Remuneration Supervisory Board
Members and former members of the Supervisory Board are regarded as key management personnel. The remuneration for current and former supervisory board members charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 240 thousand (2019: EUR 218 thousand). This remuneration consists entirely of gross pay and the employer's share of social security charges. The members of the Supervisory Board employed by Aegon N.V. did not receive any remuneration for their membership. No payments were made in connection with severance schemes; no remuneration or rights attaching to shares were granted.

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

33.1. Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Nederland'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 Nederland;
- Audit of the financial statements of subsidiaries;
- Audit of the subsidiaries for group reporting purposes;
- Audit of the regulatory reports (Wft staten) of Aegon Levensverzekering, Aegon Spaarkas and Aegon Schadeverzekering as required by the Act on the financial supervision ('Wet op het financieel toezicht').

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 Nederland'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

- Assurance assignments other than assignments to audit or review historical financial information;
- Review procedures performed on specified information or regulatory returns as specifically required by supervisory authorities pursuant to applicable law or regulations;
- Audit of internal control procedures;
- Audit of separate financial statements or audit of a specific element, account or item of a financial statement;
- Assurance assignments relating to cost price models;
- Specifically agreed services for third parties such as agreed upon assignments.
- Comfort letters relating to the covered bond program and other agreed-upon procedures for offering circulars, prospectuses, registration statements in connection with securities offerings and product filings.

34. Impairment charges / (reversals)

	2020	2019
DPAC / VOBA	-	76
Financial assets AFS	1	-
Loans	85	71
Other	21	18
Net impairment charges / (reversals)	**107**	**165**

The impairment of DPAC and VOBA in 2019 was the result of the LAT deficit in 2019.

35. Interest charges and related fees

	2020	2019
Borrowings	4	6
Short-term liabilities and deposits	120	132
Total	**124**	**138**
Interest charges accrued on financial assets and liabilities not carried at FVTPL	124	138

36. Other charges

Other charges relate to the increase of the provision for legal procedures with respect to the agreement between Aegon Bank and LeaseProces B.V.. In December 2020 Aegon Bank reached a signed letter of intent on a settlement with Leaseproces B.V. for claims regarding Vliegwiel and Sprintplan. Refer to note 22 'Provisions' for more information.

37. Income tax

	2020	2019
Current tax		
- current year	-90	149
- adjustments to prior year	-181	-9
Deferred tax		
- origination / (reversal) of temporary differences	280	-51
- changes in tax rates / bases	20	22
- adjustment to prior year	160	-8
Income tax for the period (income) / charge	**189**	**102**

Reconciliation between standard and effective corporate income tax:

	2020	2019
Income before tax	727	452
Income tax calculated using weighted average applicable statutory rates	182	113
Difference due to the effects of:		
- non-taxable income	8	-
- non-tax deductible expenses	-	1
- changes in tax rates / bases	20	22
- adjustments to prior years	-21	-18
-other*	-	-16
Income tax for the period (income) / charge	**189**	**102**

* 'Other': changes in deferred tax assets as a result of recognition, write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences

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.

	2020	2019
Items that will not be reclassified to profit and loss:		
Changes in revaluation reserve real estate held for own use	1	-
Remeasurement of defined benefit plans	-126	-115
	-125	**-115**
Items that may be reclassified subsequently to profit and loss:		
Gains / losses on revaluation AFS investments	32	-111
Gains / losses transferred to the income statement on disposal and impairment AFS investments	-5	-60
	27	**-171**
Total income tax related to components of other comprehensive income	**-98**	**-285**

38. Fair value of assets and liabilities

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

38.1. Fair value hierarchy

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

2020	Level I	Level II	Level III	Total
Assets carried at fair value				
AFS investments				
- Shares	-	-	28	28
- Debt securities	16.997	8.758	177	25.931
- Other	-	100	-	100
Real estate held for own use	-	-	104	104
FVTPL investments				
- Shares	47	5.035	1.302	6.384
- Debt securities	112	575	-	687
- Investments for account of policyholders*	14.162	8.232	736	23.130
- Derivatives	2	9.981	22	10.006
- Investments in real estate	-	-	2.331	2.331
Total assets	**31.319**	**32.682**	**4.699**	**68.700**
Liabilities carried at fair value				
- Derivatives	33	5.666	2.037	7.736
Total liabilities	**33**	**5.666**	**2.037**	**7.736**

2019	Level I	Level II	Level III	Total
Assets carried at fair value				
AFS investments				
- Shares	-	-	23	23
- Debt securities	15.945	3.463	148	19.556
- Other	-	85	-	85
Real estate held for own use	-	-	108	108
FVTPL investments				
- Shares	84	3.769	1.335	5.189
- Debt securities	1	44	-	45
- Investments for account of policyholders*	12.907	9.024	1.259	23.190
- Derivatives	77	8.199	55	8.331
- Investments in real estate	-	-	2.229	2.229
Total assets	**29.014**	**24.584**	**5.157**	**58.755**
Liabilities carried at fair value				
- Derivatives	2	6.177	1.739	7.917
Total liabilities	**2**	**6.177**	**1.739**	**7.917**

*The investments for account of policyholders included in the table above only include investments carried at fair value through profit or loss.

Movements in Level III financial assets and liabilities measured at fair value

2020	As at 1-1-2020	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2020	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	23	-	-	11	-6	-	28	-
- Debt securities	148	-	5	34	-11	-	177	-
Real estate held for own use	108	-2	-2	-	-		104	-2
FVTPL investments								
- Shares	1.335	-98	-	159	-95	-	1.302	-98
- Investments for account of policyholders	1.259	48	-	-32	-539	-	736	48
- Derivatives	55	-33	-	-	-	-	22	-33
- Investments in real estate	2.229	134		148	-180		2.331	134
Total assets	**5.157**	**48**	**4**	**320**	**-830**	**-**	**4.699**	**48**
Liabilities carried at fair value								
- Derivatives	1.739	298	-	-	-	-	2.037	298
Total liabilities	**1.739**	**298**	**-**	**-**	**-**	**-**	**2.037**	**298**

Result income statement: Includes impairments and movements related to fair value hedges. Gains and losses are recorded in the line item Results from financial transactions of the income statement.
Result OCI: Total gains and losses are recorded in line items: Gains/(losses) on revaluation of available-for-sale investments, (Gains)/losses transferred to the income statement on disposal and impairment of available-for-sale investments and Changes in revaluation reserve real estate held for own use of the statement of other comprehensive income.
Result year-end: Relates to the total income in the financial year during which the financial instrument was held as Level III instrument.

2019	As at 1-1-2019	Result income statement	Result OCI	Purchases	Sales	Transfers between I/II and III	As at 31-12-2019	Result year-end
Assets carried at fair value								
AFS investments								
- Shares	29	-	3	-	-9	-	23	-
- Debt securities	161	-	9	-	-14	-8	148	-
Real estate held for own use	101	-2	9	-	-		108	-2
FVTPL investments								
- Shares	1.180	55	-	364	-264	-	1.335	55
- Investments for account of policyholders	1.303	73	-	439	-556	-	1.259	73
- Derivatives	33	20	-	2	-	-	55	20
- Investments in real estate	2.150	159		179	-259		2.229	159
Total assets	**4.957**	**305**	**20**	**984**	**-1.101**	**-8**	**5.157**	**305**
Liabilities carried at fair value								
- Derivatives	1.682	57	-	-	-	-	1.739	57
Total liabilities	**1.682**	**57**	**-**	**-**	**-**	**-**	**1.739**	**57**

Result income statement: Includes impairments and movements related to fair value hedges. Gains and losses are recorded in the line item Results from financial transactions of the income statement.
Result OCI: Total gains and losses are recorded in line items: Gains/(losses) on revaluation of available-for-sale investments, (Gains)/losses transferred to the income statement on disposal and impairment of available-for-sale investments and Changes in revaluation reserve real estate held for own use of the statement of other comprehensive income.
Result year-end: Relates to the total income in the financial year during which the financial instrument was held as Level III instrument.

Some OTC derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. The most significant unobservable input for these derivatives is the interest rate due to the long duration of the derivatives. However, the interest rate risk is taken into account in our interest rate hedging strategy. Therefor the net most significant unobservable input is the (projected) mortality development.

Significant transfers between Levels I/II/III

During 2020 and 2019 no significant transfers from level II to level III or vice versa took place, nor were there significant transfers between level I and II or vice versa.

Significant unobservable assumptions

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

2020	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	28	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	177	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Shares	1.302	Broker quote	n.a.	n.a.	n.a.
Debt securities	-	Broker quote	n.a.	n.a.	n.a.
Investments for account of policyholders	736	Broker quote	n.a.	n.a.	n.a.
Derivatives	22	Discounted cash flow	Mortality	5%	5%
Investments in real estate	2.331	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	104	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**4.699**				
Liabilities carried at fair value					
Derivatives					
- Bifurcated embedded derivatives	2.037	Discounted cash flow	Credit spread	0,25%	0,25%
Total liabilities at fair value	**2.037**				

* Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Nederland and are not reasonably available. Refer to the section Fair value measurement in this note for a detailed description of Aegon Nederland's methods of determining fair value and valuation techniques.

2019	Carrying amount	Valuation technique	Significant unobservable input*	Range	Weighted average
Assets carried at fair value					
AFS investments					
Shares	23	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	148	Broker quote	n.a.	n.a.	n.a.
FVTPL					
Shares	1.335	Broker quote	n.a.	n.a.	n.a.
Investments for account of policyholders	1.259	Broker quote	n.a.	n.a.	n.a.
Derivatives	55	Discounted cash flow	Mortality	5%	5%
Investments in real estate	2.229	External appraiser	n.a.	n.a.	n.a.
Real estate for own use	108	External appraiser	n.a.	n.a.	n.a.
Total assets at fair value	**5.157**				
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives	1.739	Discounted cash flow	Credit spread	0,20%	0,20%
Total liabilities at fair value	**1.739**				

* Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Nederland and are not reasonably available. Refer to the section Fair value measurement in this note for a detailed description of Aegon Nederland's methods of determining fair value and valuation techniques.

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

2020	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	22	Mortality	a	-36	66
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives	2.037	Credit spread	b	-56	58

2019	Carrying amount	Significant unobservable input	Note	Effect of reasonably possible alternative assumptions	
				positive	negative
Assets carried at fair value					
FVTPL					
Derivatives	55	Mortality	a	-47	74
Liabilities carried at fair value					
Derivatives - Bifurcated embedded derivatives	1.739	Credit spread	b	-49	51

The table above presents the impact on a fair value measurement of a change in an unobservable input for financial assets and liabilities. The impact of changes in inputs may not be independent; therefore the descriptions provided below indicate the impact of a change in an input in isolation.

a. Some OTC derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. Depending on the duration of the longevity swaps either the projected mortality (+/- 5%) development or discount rate (+/- 100 bps) are the most significant unobservable inputs.
b. To determine the fair value of the bifurcated embedded derivatives related to guarantees, a discount rate is used including own credit spread. An increase in the own credit spread results in lower valuation, while a decrease results in a higher valuation of the embedded derivatives. Aegon Nederland increased or decreased the own credit spread by 20 basis points.

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

The following tables 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.

For certain financial assets and liabilities disclosed in the table below, the carrying amounts of reasonably approximate the disclosed fair values at year-end. Therefore the unobservable inputs regarding the fair value are listed as not applicable (n.a.). All of the instruments disclosed in the table are held at amortized cost.

Instruments not included in the table
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
- internal 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	30.591	33.761	-	-	33.761
Private loans	4.320	5.244	-	-	5.244
Other	25	25	-	25	-
Liabilities					
Savings deposits	12.540	12.672	-	-	12.672
Borrowings	5.227	5.315	-	-	5.315
Investment contracts	191	190	-	-	190

2019	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	29.567	33.111	-	-	33.111
Private loans	4.440	5.109	-	-	5.109
Other	227	227	-	227	-
Liabilities					
Savings deposits	11.517	11.892	-	-	11.892
Borrowings	5.785	5.787	-	-	5.787
Investment contracts	199	193	-	-	193

38.2. Fair value measurement

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

38.2.1. Shares

When available, Aegon Nederland uses quoted market prices in active markets to determine the fair value of its investments in shares. For Level III unquoted shares, the net asset value can be considered the best approximation to the fair value. Net asset value is the value of an entity's assets minus the value of its liabilities and may be the same as the book value or the equity value of the entity. Also for unquoted shares, the fair value may be estimated using other methods, such as observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Adjustments for lack of liquidity are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

38.2.2. Real estate funds, private equity funds and hedge funds

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers. Aegon Nederland reviews the valuations each month and performs analytical procedures and trending analysis to ensure the fair values are appropriate. The net asset value is considered the best valuation method that approximates the fair value of the funds.

38.2.3. Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Nederland uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Nederland’s valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes, the majority of which are non-binding. As part of the pricing process, Aegon Nederland assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value.

When broker quotes are not available, securities are priced using internal cash flow modelling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

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

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

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

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

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

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

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

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

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

38.2.4. Mortgage loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Nederland, 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.

38.2.5. Real estate

Valuations of both investments in real estate and real estate held for own use are conducted in full by independent external appraisers at least every three years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the balance sheet date. Appraisals are different for each specific local market, but are based on market guidelines such as International Valuation Standards, Uniform Standards of Professional Appraisal Practice or guidelines issued by the Investment Property Databank. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the value that the property's net earning power will support, the value indicated by recent sales of comparable properties and the current cost of reproducing or replacing the property. Discount rates used in the valuation of real estate reflect the risk embedded in the projected cash flows for the asset being valued. Capitalization rates represent the income rate for a real estate property that reflects the relationship between a single year's net operating income expectancy and the total property price or value. For property held for own use, appraisers consider the present value of the future rental income cash flows that could be achieved had the real estate been let out.

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

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

38.2.7. 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 Nederland normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[9] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Nederland 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 Nederland's valuation of its euro-denominated derivatives positions in the Netherlands is based on the Overnight Index Swap curve.

Some over-the-counter derivatives are so-called longevity derivatives. The pay-out of longevity derivatives is linked to publicly available mortality tables. The derivatives are measured using the present value of the best estimate of expected pay-outs of the derivative plus a risk margin. The best estimate of expected pay-outs is determined using best estimate of mortality developments. Aegon Nederland determined the risk margin by stressing the best estimate mortality developments to quantify the risk and applying a cost-of-capital methodology. Depending on the duration of the longevity swaps either the projected mortality development or discount rate are the most significant unobservable inputs.

[9] International Swaps and Derivatives Associations

38.2.8. Embedded derivatives in insurance contracts including guarantees

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

Since the price of these guarantees is not quoted in any financial market, the fair values of these guarantees are based on discounted cash flows calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic models under a variety of market return scenarios. A variety of factors are considered including own credit spread, expected market rates of return, equity and interest rate volatility, correlations of market returns, discount rates and actuarial assumptions. The most significant unobservable factor is own credit spread. The own credit spread used in the valuations of embedded derivatives in insurance contracts is 0.25% for the year-ended (2019: 0.20%).

Aegon extrapolates yield curves beyond market observable maturities. The discount rates converge linearly in 10 years to an Ultimate Forward Rate of 3,65% from the last liquid point. The uniform last liquid point for all Aegon's major currencies (EUR, USD and GBP) is set at 30 years.

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

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy. See also note 18 'Guarantees'.

38.2.9. Embedded derivatives in bank products

Some bifurcated derivatives embedded in bank products are not quoted in an active financial market. Valuation techniques are used to determine the fair values of these derivatives. Given the dynamic and complex nature of the cash flows relating to these derivatives, their fair values are often determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market prices and rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free interest rates. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. As required for discounting cash flows, Aegon Nederland applies a credit spread to the risk-free interest rate when computing the guarantee provisions. This own credit spread is derived from the spread used in the market for credit default swaps in a reference portfolio of European life insurers (including Aegon N.V.).

38.2.10. Savings deposits and investment contracts

Savings deposits and investment contracts issued by Aegon Nederland are carried at amortized cost (with fair value being disclosed in the notes to the consolidated financial statements).

Similar to embedded derivatives in insurance contracts, certain investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic or similar techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

38.2.11. Other borrowings

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

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

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

	2020		2019	
	Trading	Designated	Trading	Designated
Investments for general account	-	8.119	-	6.002
Investments for account of policyholders	-	23.130	-	23.190
Derivatives with positive values	9.847	159	8.225	107
Total financial assets at FVTPL	**9.847**	**31.408**	**8.225**	**29.298**

	2020		2019	
	Trading	Designated	Trading	Designated
Liabilities for guarantees	-	7.973	-	6.422
Derivatives with negative values	4.641	3.095	5.398	2.519
Total financial liabilities at FVTPL	**4.641**	**11.068**	**5.398**	**8.941**

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	2.966	489	1.980	3.384

<u>Investments for general account</u>
Aegon Nederland manages certain portfolios on a total return basis which have been designated at fair value through profit or loss. This includes portfolios of investments in limited partnerships and limited liability companies (primarily hedge funds) for which the performance is assessed internally on a total return basis.

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

<u>Investments for account of policyholders</u>
Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer. Under the accounting policies of Aegon Nederland these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement. To avoid an accounting mismatch the linked assets have been designated as at fair value through profit or loss.

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

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

39. Commitment and contingencies

39.1. Investments contracted

In the normal course of business, Aegon Nederland 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.

Contracted purchases	2020	2019
Real estate	180	168
Private loans	69	188
Mortgage loans	1.224	456
Other	296	425

Contracted sales	2020	2019
Real estate	12	2
Mortgage loans	122	79

Aegon Nederland has committed itself, through certain subsidiaries, to invest in real estate, private loans, mortgage loans and receivables and investment funds (included in 'Other') in future years.

Real estate commitments represent the committed pipeline of investments in real estate projects. The sale of real estate relates to properties that are under contract to be sold as per December 31. Mortgage loan commitments represent undrawn mortgage loan facilities provided and outstanding proposals on mortgages. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans. Private loans represent deals on Aegon Nederland's portfolio of private placement securities that Aegon Nederland has committed to, but which have not yet settled and funded. Other commitments include future purchases of interests in investment funds and limited partnerships.

39.2. Other commitments and contingencies

Guarantees have been issued for compliance with contractual obligations such as investment mandates of investment funds.

<u>Contractual obligations</u>
In March 2020 Aegon Levensverzekering and Aegon Spaarkas signed a contract with IBM with respect to the outsourcing of the administration of the individual life service book portfolio which consists of approximately 800,000 policies. The agreement is a 20-year contract in which Aegon Levensverzekering and Aegon Spaarkas have the option for prolongation after this period. At year-end 2020, outstanding transition charges are estimated to amount to approximately EUR 30 million (excluding VAT), which are expected to be recorded over the next three years, with fixed payments to IBM defined in the agreement and subject to completion of milestones which have been agreed with Aegon Nederland.

39.3. Off-balance sheet assets

As part of its core activities, Aegon Nederland enters into transactions and maintains relationships with institutional and private customers for a wide range of financial services. As consideration for these services, Aegon Nederland receives fees related to the value of the assets, the investment result or the risk run in connection with the contract. These are accounted for in note 28 'Fee and commission income'.

39.4. Legal and arbitrary proceedings, regulatory proceedings and actions

Unit-linked products
Generally speaking, there is still media, political and regulatory attention regarding unit-linked policies (beleggingsverzekeringen). Individual customers as well as policyholder advocate groups and their representatives continue to focus on the fees and charges included in products, as well as alleged transparency aspects. Aegon Nederland expects this to remain an issue for the industry for the foreseeable future. Exposure and attention will be stimulated by court cases.

Proceedings in which Aegon Nederland is involved

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

In June 2014, Aegon announced that it would voluntarily compensate holders of KoersPlan products who were not plaintiffs in the litigation. Compensation amounted to the difference, if any, between the actual premium charged by Aegon and the premium that would have been charged by Aegon for a comparable risk in a product providing only death benefit coverage over the same period. This product improvement is explicitly supported by the consumer interest group that initiated the court action over the KoersPlan product, Stichting Koersplandewegkwijt. A follow-up and extension of the Regeling Spaarbeleg for the Spaarbeurs and Spaarlift portfolio of Aegon Spaarkas started in 2017 and continued in 2019. Another follow-up improvement was announced in 2019 for the Fund/Safe portfolio.

Unit-linked products
In September 2014, consumer interest group Vereniging Woekerpolis.nl filed a class action against Aegon Levensverzekering and Aegon Spaarkas in court. The claim was related to a range of unit-linked products which Aegon sold in the past and include products that already had been subject to litigation, such as KoersPlan.

On June 28, 2017 (and revised in December 2017) the District Court of The Hague has rendered a final ruling which limited the scope to three products, Koersplan (tontine), Vermogensplan (tontine) and Fundplan (UL) and excluded all policies with a guarantee. The court upheld the principle that disclosures must be evaluated according to standards at the time when the relevant products were placed in-force. Most of the claims of Vereniging Woekerpolis.nl were dismissed under this standard, although the court found that Aegon did not adequately disclose the level of certain charges on a limited set of policies. According to the court these cost levels should be reasonable. The court did not give a judgement about the reasonableness of the cost levels and whether the previous compensation arrangements provide sufficient compensation. Both The Vereniging Woekerpolis.nl and Aegon have filed an appeal against the ruling of the District Court in The Hague. The appeal proceedings are pending. The Court of Appeal has stayed the proceedings at the request of Vereniging Woekerpolis.nl. Accordingly, there have not been any developments in 2020. Furthermore there are individual claims pending at the Klachteninstituut Financiële Dienstverlening (Kifid) filed by customers over products of Aegon that arguably include similar allegations. At this time the decisions of Kifid and courts are far from homogenous.

Aegon expects the claims and litigation on unit-linked policies to continue for the foreseeable future. Developments in similar cases against other Dutch insurers currently before regulators, KIFID and courts may also affect Aegon. These matters will be defended; however, at this time, due to the nature and the type of claims, it is not practicable for Aegon to quantify a range or maximum liability or the timing of the financial impact, if any. There can be no assurance that such claims may not have a material adverse effect on Aegon's results of operations or financial position.

Securities leasing products ("aandelenlease")
Lawsuits have also been brought against providers of securities leasing products. In September 2016 the Dutch Supreme Court ruled on a case involving a securities leasing product sold by one of Aegon's competitors. It decided that a financial institution was liable where the broker ('remisier') who advised on the sales of this financial institution's securities leasing products was not properly licensed to provide advice with regard to such products. Individual clients and advocate groups have already claimed or alleged that this ruling also applies to Aegon securities leasing products. In July 2016, consumer interest group Platform Aandelenlease (PAL) filed a class action claim against Aegon Bank regarding Sprintplan. In February 2020 the Court of Appeal rejected all claims of PAL. This ruling has become final. Aegon Bank is involved in claims for compensation and the cancellation or nullification of contracts concerning the Vliegwiel product, a variation on securities leasing products. Currently, proceedings are pending before the Dutch courts and Kifid, with numerous cases having been initiated by Leaseproces B.V., a company that represents a large number of claimants. In December 2020 Aegon Bank reached a signed letter of intent on a settlement with Leaseproces B.V. for claims regarding Vliegwiel and Sprintplan. The agreement is about the level of compensation customers will receive for these products. It is management's intention to finalize discussions, leading to a signed agreement in the near future.The settlement is subject to conditions precedent and further operational details are to be worked out. Full execution of the agreement is expected in 2021.

Co-insurance claim
In May 2019 a claim was filed against Aegon Levensverzekering regarding the conditions of a co-insurance agreement. There have been no developments in 2020 due to court capacity which has been impacted by the COVID-19 measures and restrictions. At this time, Aegon is unable to estimate the range or potential maximum liability.

39.5. Capital commitments

	2020	2019
Share of contingent liabilities incurred in relation to interests in joint ventures	7	14

The contingent liabilities above not shown in the statement of financial position relate to investment obligations entered into by Aegon Nederland (for its share of approximately 50%) for real estate development project of Amvest (in real estate development projects).

In addition, Amvest has unconditional obligations and planned total investments in real estate of EUR 1,152 million at year-end 2020 (2019: EUR 1,216 million). Of this, an amount of EUR 250 million is considered to be an unconditional obligation (2019: EUR 365 million). These amounts fully relate to the joint ventures.

39.6. Future lease payments

The future non-cancellable leases relate to office space lease and car lease from third parties. These are specified in the table below.

	2020	2019
Not later than 1 year	2	2
Between 1 and 5 years	6	6
Later than 5 years	1	1
	9	**9**

40. Transfers of financial assets

Transfers of financial assets occur when Aegon Nederland transfers contractual rights to receive cash flows of financial assets or when Aegon Nederland 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.

<u>Assets accepted</u>
Aegon Nederland's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending and reverse repurchase activities. Aegon Nederland retains substantially all risks and rewards of those transferred assets, this includes credit risk, settlement risk, country risk and market risk. The assets are legally transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as Aegon Nederland is obligated to return this amount upon termination of the lending arrangement. The sum of cash and non-cash collateral is typically greater than the market value of the related securities lend. When transferring non-cash financial assets to another party under securities lending and repurchase activities, the counterparty has the right to sell or re-pledge the full amount.

Securities lending	2020	2019
Carrying amount of transferred financial assets	225	671
Fair value of cash collateral received	-	-76
Fair value of non-cash collateral received	-236	-618
Net exposure	**-11**	**-23**
Non-cash collateral that can be sold or repledged in the absence of default	236	618
Non-cash collateral that has been sold or transferred	-	-

Reverse repurchase agreements	2020	2019
Cash paid for reverse repurchase agreements	869	4.640
Fair value of non-cash collateral received	-869	-4.640
Net exposure	**-**	**-**
Non-cash collateral that can be sold or repledged in the absence of default	869	4.640
Non-cash collateral that has been sold or transferred	-	-

In addition, Aegon Nederland can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon Nederland or its counterparty. Transactions requiring Aegon Nederland or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. Refer to the credit risk section in note 4.2.4 'Credit risk' for details on collateral received for derivative transactions. In addition, in order to trade derivatives on the various exchanges, Aegon Nederland posts margin as collateral. These transactions are conducted under terms that are usual and customary to standard borrowing, derivative and securities borrowing activities, as well as requirements determined by exchanges where a bank acts as intermediary.

Assets pledged
Aegon Nederland pledges assets that are on its statement of financial position in securities borrowing transactions, in repurchase transactions and against borrowings. Non-cash financial assets that are borrowed or purchased under agreement to resell are not recognized in the statement of financial position. To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized. At year-end 2020 and year-end 2019 there were no assets pledged for repurchase agreements.

As part of Aegon Nederland's mortgage loan funding program EUR 2.0 billion (2019: EUR 2.7 billion) has been been pledged as security for notes and loans issued and for subsidiary Aegon Bank EUR 2.4 billion has been are pledged for notes related to the Conditional Pass Through Covered Bond program (2019: EUR 2.7 billion). Refer to note 21 'Borrowings and group borrowings' for more information.

41. 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 Nederland 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 Nederland mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities of Aegon Nederland to facilitate Aegon Nederland'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 Nederland or its counterparty. Transactions requiring Aegon Nederland or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

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

	Assets		Liabilities	
	2020	2019	2020	2019
Financial instruments in balance sheet				
Gross (=Net) amounts of financial instruments	10.005	8.331	5.699	6.178
Related amounts not set off				
- Financial instruments	5.699	6.178	5.699	6.178
- Cash collateral pledged (excluding surplus collateral)	4.307	2.120	-	-
Net amount at December 31	**-**	**33**	**-**	**-**

42. Group companies

42.1. Subsidiaries

The principal subsidiaries of Aegon Nederland, which are all incorporated in the Netherlands, are as follows:

Name	**Primary business operation**	**% equity interest 2020**	**% equity interest 2019**
Aegon Bank N.V., The Hague	Banking	100%	100%
Aegon Hypotheken B.V., The Hague	Mortgages	100%	100%
Aegon Levensverzekering N.V., The Hague	Life Insurance	100%	100%
Aegon Schadeverzekering N.V., The Hague	Non-life Insurance	100%	100%
Aegon Spaarkas N.V., The Hague	Life Insurance	100%	100%
Aegon Cappital B.V., Groningen	Life Insurance	100%	100%
Nedasco B.V., Amersfoort	Broker/Dealer	100%	100%
Robidus Groep B.V., Zaanstad *	Insurance related services	94%	94%
TKP Pensioen B.V., Groningen	Pension Management	100%	100%

* In August 2020 Salus Holding B.V. and Robidus Groep B.V. merged, with Robidus Groep B.V. as the disappearing company; subsequently the name was changed to Robidus Groep B.V.

Aegon Nederland has issued a statement of liability pursuant to Section 403 of Book 2 of the Dutch Civil Code for the following group companies:

- Aegon Administratie B.V.
- Aegon DL B.V.
- Aegon Global Investment Fund B.V.
- Aegon Innovation Investments B.V.
- Vastgoedmaatschappij Inpa B.V.
- Amvest Home Free B.V.

The legally required list of subsidiaries and associates required by Sections 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register in The Hague.

42.2. Investments in associates and joint ventures

Associates

The principal associates of Aegon Nederland are:

- Amvest Residential Core Fund (28.9%) real estate
- N.V. Levensverzekeringmaatschappij 'De Hoop', The Hague (33.3%)
- OB Capital Cooperatief U.A., Schiphol (95.0%);

OB Capital Cooperatief U.A. is a company involved in investment in litigation finance and is incorporated in the Netherlands with principal activities based in the Netherlands, Switzerland, United Kingdom and Guernsey. Aegon Levensverzekering has a 95% interest in OB Capital Cooperatief U.A.. Even though Aegon Levensverzekering held more than half of the voting rights, Aegon Levensverzekering does not have control over the company because the existing contractual agreements with other shareholders do not provide Aegon Levensverzekering with rights to direct the daily activities of the company.

Joint ventures
The joint ventures of Aegon Nederland are:

- Amvest Vastgoed B.V., Utrecht (50%), property management and real estate
- Amvest Development Fund B.V.. Utrecht (50%), real estate
- Amvest Living & Care Fund, (50%), real estate

Amvest Vastgoed B.V. is the fund manager of the funds. The other major participant in the joint venture, Stichting Pensioenfonds Zorg en Welzijn in Zeist, has equal interests and voting power in the entities mentioned above.

42.3. Investments in structured entities

The following structured entities are group companies and have been consolidated. The structures entities relate to the securitization of mortgage loans or consumer credit loans. The contractual agreements with these entities do not include provisions in which Aegon Nederland could be required to provide financial support in certain circumstances. Aegon Nederland has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

- SAECURE 16 B.V.
- SAECURE 17 B.V.
- SAECURE 18 NHG B.V.
- SAECURE 19 B.V.
- Aegon Hypotheken Financiering B.V.
- Kigoi 2013 B.V.
- Aegon Conditional Pass Through Covered Bond Company B.V.

SAECURE 15 NHG B.V has been called at FORD in 2020 and is liquidated. Refer to note 4.2.5 ‘Credit risk concentration’ for information on unconsolidated structured entities.

On May 23, 2019, Aegon Levensverzekering closed a transaction under the Dutch SAECURE program to issue Class A mortgage backed securities (RMBS). ‘SAECURE 17’ consists of EUR 2,900 million of class A notes with an expected weighted average life of 4.99 years and a fixed coupon of 0.50%. These notes can be used as collateral for repurchase facilities Aegon Levensverzekering has entered into with third parties, or alternatively sold to third party investors. As all notes have been retained by Aegon Levensverzekering, the notes acquired by Aegon Levensverzekering are eliminated against the notes issued by the SPE in the consolidation process. At year-end 2020 EUR 575 million (market value EUR 524 million) has been posted as collateral with respect to the longevity reinsurance contract with Canada Life Reinsurance (2019: EUR 510 million).

On May 28, 2020, Aegon Bank closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). ‘SAECURE 19’ consists of EUR 1,540 million of class A notes with an expected weighted average life of 5.0 years and a fixed coupon of 0.50%. As all notes have been retained by Aegon Bank, the notes acquired by Aegon Bank are eliminated against the notes issued by the SPE in the consolidation process. The notes are ECB eligible retained notes and therefore generated increased liquidity capacity for Aegon Bank.

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.

43. Related party transactions

In the normal course of business, Aegon Nederland 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 Nederland has a current account receivable with Aegon N.V. of EUR 10 million (2019: EUR 20 million receivable). Aegon Nederland has group borrowings and group loans with group companies. See note 21.2 'Group borrowings' and note 11 'Loans and group loans' for further information.

In 2020, Aegon N.V. recharged Aegon Nederland EUR 24 million in overheads and program expenses (2019: EUR 37 million). In turn, Aegon Nederland recharged these expenses to its group companies. Aegon Nederland administers the payroll for employees working for Aegon N.V. in the Netherlands. The total employee benefits recharged were EUR 81 million (2019: EUR 78 million).

Aegon Nederland, without the joint venture Amvest Vastgoed, is a member of the Aegon N.V. tax group and settles its current tax liabilities with the head of the tax grouping as if it were an autonomous taxpayer. Aegon Nederland is jointly and severally liable for all tax liabilities of the entire Aegon N.V. tax group. It also uses the tax expertise of Aegon N.V.

Aegon Nederland participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Nederland uses to mitigate interest rate risk are concluded with Aegon Derivatives.

Aegon Nederland paid EUR 175 million dividend to Aegon Europe Holding B.V. in 2020 (2019: no dividend was paid).

In 2019 Aegon Europe Holding B.V. increased the equity of Aegon Nederland by means of a capital contribution of EUR 75 million as a share premium on shares already issued. This capital contribution was done in cash in order for Aegon Nederland to recapitalize Aegon Bank with the same amount.

Investment and derivative activities are undertaken through Aegon Investment Management B.V. and securities custody through Aegon Custody B.V.. Costs are recharged on normal commercial terms. The recharge was EUR 45 million (2019: EUR 43 million).

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).

44. Events after the reporting period

In March 2021 EUR 25 million dividend was paid to Aegon Europe Holding B.V.

On April 8, 2021, Aegon Nederland 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.

45. Approval of the consolidated financial statements

The consolidated financial statements of Aegon Nederland for the year ended 31 December 2020 were approved by the Board of Directors and by the Supervisory Board 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 Supervisory Board,

D. Jansen Heijtmajer (chair)	
G.J.M. Vrancken	
M.J.E. Hoek	
G.T. Kepecs	
D.F.R. Jacobovits de Szeged	

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 Nederland N.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)

Amounts in EUR million	Note	31-12-2020	31-12-2019
Non-current assets			
Immaterial fixed assets			
Intangible assets		17	15
Financial fixed assets			
Shares in group companies	3	10.220	10.116
Loans and group loans	4	600	676
Investments	5	2.798	2.579
		13.618	**13.371**
Current assets			
Receivables			
Other assets and receivables	6	1.246	1.201
Cash and cash equivalents			
Cash and cash equivalents	7	67	90
Total assets		**14.948**	**14.677**
Equity	8		
- Share capital		24	24
- Share premium		1.817	1.817
- Revaluation reserves		1.771	1.723
- Remeasurement of defined benefit plans		-1.510	-1.350
- Other legal reserves		41	32
- Retained earnings		4.279	4.180
- Net income / (loss)		538	349
Total equity		**6.961**	**6.775**
Provisions			
Provisions		41	44
Deferred tax liabilities	9	216	124
		257	**168**
Non-current liabilities			
Borrowings and group borrowings	10	3.555	3.570
Defined benefit liabilities	11	3.718	3.479
		7.273	**7.049**
Current liabilities			
Other liabilities and accruals	12	457	685
Total liabilities		**7.987**	**7.902**
Total equity and liabilities		**14.948**	**14.677**

Income statement

(for the year ended December 31, 2020)

Amounts in EUR million	2020	2019
Net income / (loss) group companies	397	177
Other income / (loss) after tax	141	172
Net income / (loss)	**538**	**349**

Notes to the financial statements

1. General information

For general information on Aegon Nederland 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 Nederland 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 'Summary of significant accounting policies' of the consolidated financial statements for the description of the accounting policies applied. The critical accounting estimates are set out in note 3 'Critical accounting estimates and judgment in applying accounting policies' of the consolidated financial statements. These also apply to the separate financial statements unless stated otherwise.

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

2.2. Group companies

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

2.3. Equity

Revaluation reserves include unrealized gains and losses on available-for-sales assets and the positive changes in value that have been recognized in net income/(loss) relating to investments (including real estate) and which do not have a frequent market listing. In addition to the notes in the consolidated financial statements it is reported that revaluation reserves include legal reserves in respect of group companies. Legal reserves in respect of group companies include net increases in net asset value of subsidiaries and associates since their first inclusion, less any amounts that can be distributed without legal restrictions.

3. Shares in group companies

	2020	2019
At January 1	10.116	10.486
Capital contributions and acquisitions	15	146
Net income / (loss) for the financial year	397	177
Dividends received	-227	-41
Revaluations	-80	-653
Other	-	-
At December 31	**10.220**	**10.116**

For a list of names and locations of the most important group companies, refer to note 42 'Group companies' of the consolidated financial statements. Refer to the tables below for information on the capital contributions received by group companies of Aegon Nederland as well as the dividends received from group companies by Aegon Nederland. All shares in group companies are deemed non-current.

Capital contributions

	2020	2019
Aegon Bank N.V.	-	75
Aegon Schadeverzekering N.V.	-	25
Aegon Cappital B.V.	15	7
Aegon Innovation Investments B.V.	-	39
	15	**146**

Dividends received

	2020	2019
Aegon Hypotheken B.V.	47	4
Aegon Levensverzekering N.V.	146	-
Aegon Spaarkas N.V.	29	31
Nedasco B.V.	2	-
Robidus Groep B.V.	1	-
TKP Pensioen B.V.	3	6
	227	**41**

4. Loans and group loans

	2020	2019
At January 1	676	700
Additions	-	76
Repayments	-76	-100
At December 31	**600**	**676**
Current	-	76
Non-current	600	600
Total	**600**	**676**

For EUR 600 million this relates to the subordinated loan with Aegon Levensverzekering to Aegon Nederland. This subordinated loan was has an indefinite duration; the term of notice is five year. The interest rate is 6%. The remaining amount per year-end 2019 related to an overnight deposit loan with Aegon Levensverzekering which was settled on the first workday of 2020. The carrying amounts disclosed reasonably approximate fair value at year-end. No securities or guarantees have been agreed for these loans and no collateral is posted for these loans.

5. Investments

	2020	2019
Available for sale debt securities	1.444	1.270
Loans (amortized cost)	693	713
Financial assets at fair value through profit and loss (FVPL)	94	98
Investments in real estate	546	478
Other available for sale investments	21	20
At December 31	**2.798**	**2.579**
Current	208	173
Non-current	2.590	2.406
Total	**2.798**	**2.579**

Aegon Nederland has insured its defined pension obligations with Aegon Levensverzekering. The investments represent the investments related to the defined benefit plan of Aegon Nederland held in the separated accounts of Aegon Levensverzekering. Refer to note 23 'Defined benefit liabilities' of the consolidated financial statements for more information on the defined benefit plan of Aegon Nederland.

2020	Debt securities	Mortgage loans	Private loans	Financial assets FVPL	Investments in real estate	Other fin. assets	Total 2020
At January 1	1.270	563	150	98	478	20	2.579
Acquisitions	81	45	-	10	64	1	201
Disposal	-6	-65	-	-9	-30	-	-110
Unrealized gains/losses through equity	100	-	-	-	-	-	100
Amortizations through income statement	-2	-	-	-	-	-	-2
Realized gains and losses through income statement	-	-	-	-5	34	-	29
At December 31	**1.444**	**543**	**150**	**94**	**546**	**21**	**2.798**
Fair value	1.444	624	267	94	546	21	2.996

2019	Debt securities	Mortgage loans	Private loans	Financial assets FVPL	Investments in real estate	Other fin. assets	Total 2019
At January 1	1.162	599	150	80	495	17	2.503
Acquisitions	48	19	-	17	53	2	139
Disposal	-49	-55	-	-4	-102	-	-210
Unrealized gains/losses through equity	110	-	-	-	-	-	110
Amortizations through income statement	-2	-	-	-	-	-	-2
Realized gains and losses through income statement	1	-	-	5	32	1	39
At December 31	**1.270**	**563**	**150**	**98**	**478**	**20**	**2.579**
Fair value	1.270	651	246	98	478	20	2.763

6. Other assets and receivables

	2020	2019
Equipment	35	38
Other	858	568
Non-current	**893**	**606**
Receivables from group companies	267	431
Receivables	60	137
Accrued income	26	27
Current	**353**	**595**
At December 31	**1.246**	**1.201**

The category 'Other' represents the value of the contract with Aegon Levensverzekering for the defined pension plan, that exceeds the value of the investments (as disclosed in note 5 ‘Investments’) and the cash deposits (as included in note 7 ‘Cash and cash equivalents’) attributed to the contract. The carrying amounts disclosed reasonably approximate fair value at year-end.

‘Receivables from group companies’ concern the current accounts with group companies. Each group company has an uncollateralized current account relationship with Aegon Nederland, consisting of either a claim or a debt position. These current account positions are subject to internally set limits which are monitored; regular realignments occur even if no limit is exceeded.

7. Cash and cash equivalents

The cash items include an amount of EUR 18 million (2019: EUR 81 million) of cash held in the segregated accounts at Aegon Levensverzekering that is related to the pension plan of Aegon Nederland. The remaining cash items are not subject to restrictions.

8. Equity

	2020	2019
Share capital	24	24
Share premium	1.817	1.817
Revaluation reserves	1.771	1.723
Remeasurement of defined benefit plans	-1.510	-1.350
Other legal reserves	41	32
Retained earnings	4.279	4.180
Net income / (loss)	538	349
At December 31	**6.961**	**6.775**

8.1. Share capital

The authorized share capital is EUR 50 million, divided into 100,000 common shares of EUR 500 nominal value each, of which 47,194 shares have been issued and fully paid up. There have been no changes since the previous financial year.

8.2. Statement of changes in equity

2020	Share capital	Share premium	Revaluation reserves	Remeasurement of defined benefit plans	Other legal reserves	Retained earnings	Net income / (loss)	Shareholders' equity
At January 1	**24**	**1.817**	**1.723**	**-1.350**	**32**	**4.180**	**349**	**6.775**
Net income prior year retained	-	-	-	-	-	349	-349	-
Net income current year	-	-	-	-	-	-	538	538
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**349**	**189**	**538**
Changes revaluation subsidiaries	-	-	-80	-	-	-	-	**-80**
Adjustment to revaluation reserves	-	-	66	-	-	-66	-	**-**
Changes revaluation reserves	-	-	62	-	-	-	-	**62**
Remeasurement of defined benefit plans	-	-	-	-160	-	-	-	**-160**
Other	-	-	-	-	9	-9	-	**-**
Other comprehensive income / (loss)	**-**	**-**	**48**	**-160**	**9**	**-75**	**-**	**-178**
Capital contribution	-	-	-	-	-	-	-	**-**
Dividend common shares	-	-	-	-	-	-175	-	**-175**
Equity changes from relation with shareholder	**-**	**-**	**-**	**-**	**-**	**-175**	**-**	**-175**
At December 31	**24**	**1.817**	**1.771**	**-1.510**	**41**	**4.279**	**538**	**6.961**

Share capital, the revaluation reserves and other legal reserves together form the Legal reserves which are restricted from distribution to shareholders. A revaluation reserve is formed for unrealised positive revaluations for subsidiaries, joint ventures, real estate investments, AFS investments, and for positive unrealised revaluation of investments which are illiquid or do not have a frequent market listing.

The reclassification item from retained earnings is mainly related to unrealized gains on real estate investments and unrealized gains on participations in real estate investment funds for which legally a revaluation reserve should be formed.

The revaluation reserves and other legal reserves cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts. The 'Other legal reserves' relate to software that has been capitalized (accounted for under 'Intangibles') and includes software held within the group companies.

As a result of the adjustment with respect to the presentation of the legal reserves under the Dutch Civil Code Part 9 Book 2, the revaluation reserves in the company financial statements differ with of EUR 978 million (2019: EUR 912 million) from the amount presented in note 15 'Equity' of the consolidated financial statements.

2019	Share capital	Share premium	Revaluation reserves	Remeasurement of defined benefit plans	Other legal reserves	Retained earnings	Net income / (loss)	Shareholders' equity
At January 1	**24**	**1.742**	**1.381**	**-999**	**23**	**4.447**	**654**	**7.272**
Net income prior year retained	-	-	-	-	-	654	-654	-
Net income current year	-	-	-	-	-	-	349	349
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**654**	**-305**	**349**
Changes revaluation subsidiaries	-	-	-653	-	-	-	-	**-653**
Adjustment to revaluation reserves	-	-	912	-	-	-912	-	**-**
Changes revaluation reserves	-	-	83	-	-	-	-	**83**
Remeasurement of defined benefit plans	-	-	-	-351	-	-	-	**-351**
Other	-	-	-	-	9	-9	-	**-**
Other comprehensive income / (loss)	**-**	**-**	**342**	**-351**	**9**	**-921**	**-**	**-921**
Capital contribution	-	75	-	-	-	-	-	**75**
Dividend common shares	-	-	-	-	-	-	-	**-**
Equity changes from relation with shareholder	**-**	**75**	**-**	**-**	**-**	**-**	**-**	**75**
At December 31	**24**	**1.817**	**1.723**	**-1.350**	**32**	**4.180**	**349**	**6.775**

In 2019 the balance of the revaluation reserves increased with EUR 342 million which was mainly driven by a reclassification from retained earnings to the revaluation reserves of EUR 912 million in order to meet requirements regarding the presentation of legal reserves under the Dutch Civil Code Part 9 Book 2 and partly offset by a decrease of 570 million in the revaluation reserves net of the shadow accounting loss.

9. Deferred tax liabilities

2020	Real Estate	Financial assets	Defined benefit plan	Other	Total 2020
At January 1	34	92	-6	4	124
Charged to income statement	14	-1	166	-	179
Charged to equity	-	39	-126	-	-87
At December 31	**48**	**130**	**34**	**4**	**216**

2019	Real Estate	Financial assets	Defined benefit plan	Other	Total 2019
At January 1	26	65	7	22	120
Charged to income statement	8	-1	102	-18	91
Charged to equity	-	28	-115	-	-87
At December 31	**34**	**92**	**-6**	**4**	**124**

10. Borrowings and group borrowings

	2020	2019
Loan Aegon Levensverzekering N.V.	850	850
Loan Aegon Global Investment Fund B.V.	2.500	2.500
Loan Aegon Spaarkas N.V.	100	100
Loan Aegon Levensverzekering N.V.	105	120
At December 31	**3.555**	**3.570**
Current	15	15
Non-current	3.540	3.555
Total	**3.555**	**3.570**

	2020	2019
At January 1	3.570	3.585
Repayments	-15	-15
At December 31	**3.555**	**3.570**

Aegon Levensverzekering granted a loan to Aegon Nederland of EUR 850 million in 2007 for an indefinite period at an interest rate of 6% and a term of notice of one month. There have been no repayments in 2020 and 2019.

The fixed term loan with Aegon Global Investment Fund B.V. has been terminated in July 2019 and was replaced by a new loan for 5 years for the same amount, with the coupon of 6 months plus 68.3bps.

Aegon Spaarkas has a fixed term loan with Aegon Nederland for a 10 years period and a coupon of 6 months Euribor plus 148bps.

As of June 2017 Aegon Levensverzekering has a loan of EUR 150 million with Aegon Nederland, consisting of ten loan parts of EUR 15 million with a maturity vary from 1 year to 10 years at fixed interest per loan part. In 2020 EUR 15 million was redeemed (2019: EUR 15 million).

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

11. Defined benefit liabilities

Refer to note 23 'Defined benefit liabilities' of the consolidated financial statements for information on the defined benefit liabilities.

12. Other liabilities and accruals

	2020	2019
Payables to group companies	-	-
Income tax payable	-	-
Other liabilities	4	4
Non-current	**4**	**4**
Payables to group companies	343	617
Income tax payable	-	-
Other liabilities	110	64
Current	**453**	**681**
At December 31	**457**	**685**

'Payables to group companies' concern the current accounts with group companies. Refer to note 6 'Other assets and receivables' for more information.

There are no non current liabilities with a maturity over 5 year. The carrying amounts disclosed reasonably approximate fair value at year-end.

13. Remuneration Directors and Supervisory Board

Refer to note 33 'Commissions and expenses' of the consolidated financial statements for information on the remuneration of the Directors and Supervisory Board.

14. Remuneration Independent Auditor

Refer to note 33 'Commissions and expenses' of the consolidated financial statements for information on the remuneration of the independent Auditor.

15. Employees

The average number of employees is 2,225 (2019: 2,381), including 111 agents (2019: 145), all working in the Netherlands. Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. This allocation is examined each year.

16. Related party transactions

Aegon Nederland has a current account facility with the subsidiaries of the Aegon Nederland group. At year-end, the amount of EUR 110 million (2019: EUR 244 million) was drawn upon this facility.

Aegon Nederland provides its group companies with staff and facilities at cost. All intra-group transactions are accounted for through the current account with group companies (in the separate financial statements). The total recharge was EUR 255 million (2019: EUR 296 million).

In 2019 the defined benefit plan of Aegon Nederland for its own employees, which is administered by Aegon Levensverzekering, was amended. As of January 1, 2020 this plan is closed for new members and there will be no further accrual of benefits to existing members. Entitlements before January 1, 2020 will remain unchanged and the indexation agreements for those accruals will remain in force. The premium paid for this scheme to Aegon Levensverzekering was EUR 12 million (2019: EUR 50 million). Refer to note 24 'Defined benefit liabilities' for more information.

All contributions after January 1, 2020 are made to a new individual defined contribution pension scheme that is administered at Aegon Cappital. By law Aegon Cappital cannot bear insurance risks. The insurance risks relating to death benefits are insured by Aegon Levensverzekering, the insurance risks relating to disability are insured by Aegon Schadeverzekering. In 2020 EUR 42 million of defined contribution premiums were paid to Aegon Cappital. With respect to the premiums paid for the insured death benefits EUR 3 million was paid to Aegon Levensverzekering (through Aegon Cappital), and EUR 1 million as premium was paid to Aegon Schadeverzekering (through Aegon Cappital) relating to the insured disability benefits.

Aegon Nederland has group loans and group borrowings with group companies, see note 4 'Loans and group loans' and note 10 'Borrowings and group borrowings' for further information.

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).

Refer to note 43 'Related party transactions' of the consolidated financial statements for more information on the related party transactions.

17. Commitments and contingencies

Future lease payments

Aegon Nederland leases the head office building in The Hague from its subsidiary Aegon Levensverzekering. From a consolidated perspective this office building is accounted for as 'Property for own use'. From a separate financial statement perspective this classifies as an operational lease. There is no contract end date. The annual rent amounts to EUR 5 million. Currently, the statutory Board of Aegon Nederland and Aegon Levensverzekering are the same. This means that the contract effectively can be cancelled without taking into account the two-years notice in the lease contract. Therefore, the lease is considered as a short term lease.

Refer to note 39 'Commitment and contingencies' of the consolidated financial statements for more information on other commitment and contingencies.

18. Events after the reporting period

In March 2021 EUR 25 million dividend was paid to Aegon Europe Holding B.V.

On April 8, 2021, Aegon Nederland 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.

19. Approval of the financial statements

The financial statements of Aegon Nederland for the year ended 31 December 2020 were approved by the Board of Directors and by the Supervisory Board 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.

20. 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 538 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The Hague, April 8, 2021

The Supervisory Board,

D. Jansen Heijtmajer (chair)	
G.J.M. Vrancken	
M.J.E. Hoek	
G.T. Kepecs	
D.F.R. Jacobovits de Szeged	

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 28 of the Articles of Association of Aegon Nederland N.V. The relevant provisions read as follows:

1. The profit made in a financial year shall be at the disposal of the Annual General Meeting.
2. Distribution of profit shall take place after adoption of the financial statements which show this to be permissible.
3. The Annual General Meeting may resolve to make interim distributions and/or distributions charged to a reserve of the company.
4. Distributions on shares may only take place up to the amount of the distributable equity.
5. A shareholder’ claim to a distribution on shares shall lapse after a period of five years.

Independent auditor's report

Independent auditor's report

To: the general meeting and the supervisory board of Aegon Nederland N.V.

Report on the financial statements 2020

Our opinion

In our opinion:

- the consolidated financial statements of Aegon Nederland N.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 Nederland N.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 Nederland N.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, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement; and
- the notes to the consolidated financial statements, comprising the 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 to the financial statements, comprising the significant accounting policies and other explanatory information.

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

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.

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 Nederland N.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).

Our audit approach

Overview and context

Aegon Nederland N.V. is, through its Dutch subsidiaries, a provider of life insurance, pensions, (savings) mortgages, non-life insurance, banking, asset management and intermediary activities. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group and by the impact of the COVID-19 pandemic on the group financial statements, as set out below.

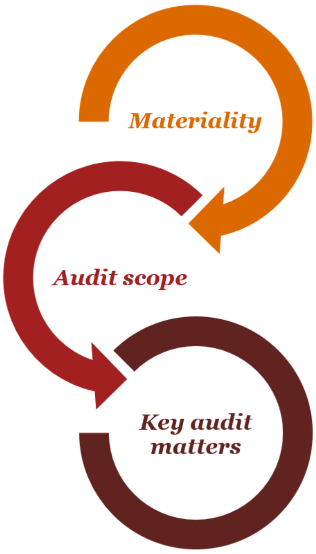
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 3 'Critical accounting estimates and judgment in applying accounting policies', the Group describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of liabilities arising from insurance contracts and the valuation of certain Level 3 investments, we consider these matters as key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified uncertainties in policyholder claims and litigation as a key audit matter.

In identifying these key audit matters we also considered the impact of the COVID-19 pandemic on critical estimates and assumptions, taking into account the estimation uncertainty as a result of the global pandemic. Based on that assessment, the meetings that we had with Aegon Nederland's management, and procedures we performed during our audit, we identified no additional key audit matters as a result of the impact or general uncertainty of the pandemic.

Given the importance of information technology (IT) for the Group and hence for our audit of the financial statements, we have, to the extent relevant to our audit, paid specific attention to the IT dependencies and IT general controls, which comprise the policies and procedures to ensure reliable automated processing of information used for financial reporting purposes, and relevant application controls.

We ensured that the audit teams at both group (consolidation) and at component level included the appropriate skills and competences that are needed for the audit of a diverse financial institution, such as Aegon Nederland N.V., including industry expertise in life and non-life insurance, banking and asset management. We, therefore, included experts and specialists in the areas of amongst others risk assurance, tax, the valuation of certain types of assets (e.g. complex financial instruments and real estate) and liabilities (actuarial services for both liabilities arising from insurance contracts and defined benefit liabilities, and valuation services for investment contracts) in our team.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: €100 million.

Audit scope

- We conducted audit work on all significant business segments within Aegon Nederland N.V.
- We included all regulated insurance and banking subsidiaries in the scope of our audit, including the investment and real estate operations managed by outsourcing partners.
- Virtual site-visits were conducted for certain real estate related investments where we make use of the work of other auditors. For the other segments we performed the audit work ourselves.
- Audit coverage: 96% of consolidated revenue, 99% of consolidated total assets and 98% of consolidated profit before tax.

Key audit matters

- Valuation of liabilities arising from insurance contracts
- Valuation of certain Level 3 investments
- Uncertainties in policyholder claims and litigation

Materiality

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

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

Overall group materiality	€ 100 million (2019: € 80 million).
Basis for determining materiality	At the start of the planning of our audit we performed a stakeholders' analysis that identified suitable benchmarks and thresholds for determining overall materiality for the financial statements. We utilised quantitative and qualitative measures that included the perspective of the common information needs of the parent company, policyholders, creditors and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. Our evaluation of overall materiality, based on our professional judgment, has been based on applying 2% of equity. This resulted in an initial overall materiality of € 139 million (2019: € 136 million). The allocated materiality to the Group from the auditor of the parent company (Aegon N.V.) that was used for group reporting purposes amounted to € 100 million (2019: € 80 million). We applied the lower of the two amounts as overall materiality in our audit of the financial statements.
Rationale for benchmark applied	We used equity as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements, which includes regulators, policyholders and other creditors. On this basis, we believe that equity is an important metric for the financial performance of the Group.
Component materiality	To each component in our audit scope we, based on our judgement, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between € 6.1 million and € 95 million.

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

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 5 million (2019: € 4 million) as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

The scope of our group audit

Aegon Nederland N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Aegon Nederland N.V.

We tailored the scope of our audit to ensure that we, in aggregate, achieve sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by the component auditor.

The majority of the year the Group was structured based on end-to-end business responsibilities organised in value streams with a streamlined and customer focused approach, aligned with the

Group's strategic categories, being 'Drive for Growth', 'Scale-up for the Future' and 'Manage for Value'. In addition, the labels Knab and Aegon Bank were integrated.

The annual report has been aligned with the new global strategy announced on December 10, 2020 at the Capital Markets Day, where, going forward, the various business units of Aegon Nederland are managed and organised in two categories:

- Financial assets: where Aegon focuses on maximising value and gradually releasing capital to invest in strategic assets; and
- Strategic assets: the businesses in which Aegon will invest to grow its customer base, improve customer retention, and margins.

As a result, the Group Pensions and Individual Life activities of Aegon Nederland (including Aegon Levensverzekering N.V. and Aegon Spaarkas N.V.) are considered 'financial assets'.
Strategic assets include Mortgages (Aegon Hypotheken B.V.), Bank (Aegon Bank N.V.), and workplace solutions for employers (including Aegon Schadeverzekering N.V. and Aegon Cappital B.V.).

The group audit primarily focussed on the significant activities, which have been identified, based on type of products, geographical location and industry, as: Head Office, Non-Life Insurance, Group Pensions, Individual Life and Mortgages, Bank, Asset Management and Real Estate managed by an outsourcing partner.

The Group's accounting process is structured around a centralised finance function that supports the individual insurance and banking operations, called reporting units. We consider these reporting units to be components in planning and executing our audit. The finance function maintains all actuarial and tax functions, its own accounting records and controls and reports to senior management and the parent company through an integrated consolidation and reporting system. In establishing the overall approach to the group audit, we determined the type of work that is needed to be performed by our audit team at each of the reporting units.

In our view, due to their significance and/or risk characteristics, the financial information of all regulated banking and insurance operations within the Group, including material underlying investments in joint ventures and associates, as disclosed in Note 42 'Group companies' of the consolidated financial statements, were in scope of our group audit. For all of these operations the group engagement team performed the audit procedures, except for one investment in joint venture where the audit of the financial information was performed by the component auditor.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	96%
Total assets	99%
Profit before tax	98%

None of the remaining components represented more than 1% of total Group revenue or total Group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where the component auditor performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit team in our audit scope as referred to above. These instructions included amongst others our risk analysis, materiality and scope of the work.
We explained to the component audit team the structure of the Group, the main developments that are relevant for the component auditor, the risks identified, the materiality levels to be applied and our group audit approach. We also included specific requirements in our instructions to the component auditor to understand and address the impact of the COVID-19 pandemic, including the risks arising from working in a remote environment.

Furthermore, we had calls with the component audit team during the year and upon conclusion of their work. During these calls, we discussed the risk assessment and audit approach with the component team (particularly concerning the risk of fraud, the valuation of real estate in development, significant estimates and the impact of the COVID-19 pandemic on the risk assessment), the significant accounting and audit issues identified by the component auditor, their reports, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements. In addition, we developed an oversight strategy for the component, which included procedures such as regular meetings and discussions to challenge and review significant audit matters and judgments. We analysed the reports received from the component auditor and conducted a virtual site-visit with the component team where we also reviewed selected working papers of the component auditor via remote access to the component team audit file.

To obtain sufficient and appropriate audit evidence for the Group's Dutch real estate operations managed by an outsourcing partner (including Investments in real estate, Investments in joint ventures and Investments in associates), we analysed available reports from the service organisation auditor and publicly available reports from auditors, had calls with these auditors and conducted a virtual site-visit with these auditors where we also reviewed selected working papers of these auditors via remote access to their audit files in order to assess whether those reports provide sufficient and appropriate audit evidence for the purpose of our audit.

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

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit are:

In respect to fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

In respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the board of directors with the oversight of the supervisory board. We refer to Note 4 'Risk Management' of the consolidated financial statements where the board of directors included their perspectives on the risk of fraud.

Risk of fraud

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. Together with our forensic specialists, we evaluated the fraud risk factors to consider whether those factors indicate a risk of material misstatement due to fraud. We also considered the impact of the COVID-19 pandemic on the control environment in our fraud risk assessment. The potential risks resulting from the COVID-19 pandemic, such as pressure on earnings and ineffective monitoring of controls, were already included in our identified fraud risk factors. Therefore, we concluded that the COVID-19 pandemic and the remote working environment did not lead to the identification of additional fraud risk factors.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks, tested high-risk manual journal entries and evaluated key estimates and judgments for bias by management, taking into account the impact of the COVID-19 pandemic. Finally, we incorporated elements of unpredictability in our audit. We refer to the key audit matter section where we included examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgments.

Risk of non-compliance with laws and regulations

There is an industry risk that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

In line with Standard 250 we made a distinction between those laws and regulations in our audit approach that:

- Have a direct effect on the determination of material amounts and disclosures in the financial statements. For this category, in line with the requirements as included in Standard 250, we obtained sufficient audit evidence regarding compliance with the provision of those laws and regulations; and
- Do not have a direct effect on the determination of material amounts and disclosures in the financial statements, but where compliance may be fundamental to the operation of the business, to the Group's ability to continue its business or to avoid material penalties. For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations that have an indirect impact on the financial statements, such as anti-money laundering and anti-terrorist financing regulations and regulations linked to the operating licenses for the group's activities (insurance, asset management, banking) including Solvency II.

Key audit matters

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

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

The key audit matters described below are mostly related to the nature of the Group and are therefore expected to occur year over year. We took the impact of the COVID-19 pandemic into consideration in the audit procedures we performed on the existing key audit matters. These are described in more detail in the individual key audit matters below, where appropriate.

Key audit matter	***Our audit work and observations***
Valuation of liabilities arising from insurance contracts. *Refer to Note 2.15 'Insurance contracts', Note 3 'Critical accounting estimates and judgment in applying accounting policies', Note 8 'Derivatives', Note 16 'Insurance contracts', Note 17 'Insurance contracts for account of policyholders' and Note 18 'Guarantees'.* The Group has insurance contracts stated at € 44.2 billion (2019: € 40.6 billion), insurance contracts for account of policyholders stated at € 25.1 billion (2019: € 25.3 billion) and bifurcated embedded derivatives stated at € 2.0 billion (2019: € 1.7 billion) at December 31, 2020 representing 67% (2019: 67%) of the Group's total liabilities. This area involves the use of complex valuation models and significant judgment over uncertain future outcomes, including the timing and ultimate full settlement of long-term policyholder liabilities, including related guarantees, and as a result is more prone to material misstatement. Therefore, we consider this area a key matter for our audit.	Our audit focused on the application of complex valuation models and the judgments applied in the assumption setting process, taking into account the uncertainty, complexity and subjectivity associated with this. We assessed the design and tested the operating effectiveness of internal controls over the actuarial process that are relevant for the purpose of our audit, including management's determination and approval process for setting economic and actuarial assumptions as well as controls over management's actuarial analyses, including estimated versus actual results and experience studies, controls over data integrity and change management for internally operated valuation models (including Aegon's model validation process) and controls over the valuation of mortgage loans. Based on this work, we found that we, to the extent relevant for our audit, could rely on these controls. We performed audit procedures over the complex valuation models and the model updates to determine the appropriateness of those. We tested the impact of model updates against supporting evidence.

Key audit matter	Our audit work and observations
To assess the adequacy of the liabilities for insurance contracts, the Group performs liability adequacy testing. This testing is done to verify that the valuation of the liabilities is adequate compared to the expected future contractual cash flows. Consistent with common practice in the insurance industry, the Group uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data, design or application of the models. Models considered more complex include those in respect of group pensions, the guarantees associated with group pension products and cash flow modelling of pension products. The main assumptions used in measuring the liabilities for insurance contracts relate to mortality, morbidity, investment return, future expenses and lapses. Significant judgment is applied in setting these assumptions. In addition, the Group adjusts the outcome of the liability adequacy test for the difference between the fair value and the book value of mortgage loans within the scope of the liability adequacy test. The fair value of mortgage loans is determined using significant assumptions that require judgment, including conditional prepayment rate assumptions. Given the magnitude of the insurance contract liabilities and the sensitivities as explained in Note 16 'Insurance contracts' and note 4.2.9 'Underwriting risk', a change in assumptions (especially mortality, morbidity and lapse) could have a significant impact on net income and shareholders' equity. During 2020, the Group continued a multi-year review of its actuarial models, focussing on those considered medium and high risk. Model updates, in combination with the actuarial and economic assumption updates, resulted in certain charges being recorded for the year as explained in Note 3.1. 'Changes in estimates'.	For the models used, we tested the completeness and accuracy of key data underlying the development of the aforementioned significant assumptions, as well as actuarial judgments applied, which may vary depending on the product and/or the specifications of the product, and the compliance of the models with the applicable accounting standards. We evaluated the reasonableness of management's significant assumptions, taking into account the impact of the COVID-19 pandemic and current management initiatives, especially on assumed future expenses. In our assessment we considered the risk of management bias in setting these significant assumptions. Based on our procedures we found these assumptions to be reasonable and appropriate. Our work on the liability adequacy test included assessing the reasonableness of the projected cash flows and challenging the main assumptions adopted in the context of both the Group's and industry experience and specific product features, as well as reconciliations to support audit information. The quality of prior years' assumptions is assessed by the analyses of the actual versus expected developments. Where expert judgment was used, we challenged management on the judgment applied and the use of alternative scenarios. Based on our procedures performed, we found that the assumptions set by management are supported by available audit information and are within a range we consider acceptable based on the Group's and industry experience. In respect of mortgage loans, we evaluated the reasonableness of management's estimate of the fair value of the portfolio by independently developing a range of acceptable outcomes and comparing management's estimate to the independently developed range. Developing the independent estimate involved utilising a range of available market inputs and assumptions and testing the completeness and accuracy of data provided by management. We also evaluated whether the disclosures in the consolidated financial statements are adequate and in accordance with EU-IFRS. We found the disclosures to be appropriate in this context.

Key audit matter	*Our audit work and observations*
Valuation of certain Level 3 investments. *Refer to Note 2.6 'Investments', Note 3 'Critical accounting estimates and judgment in applying accounting policies', Note 6 'Investments' and Note 38 'Fair value of assets and liabilities'.* The Group has investments, including investments for account of policyholders, of € 93.5 billion (2019: € 84.6 billion), of which € 4.7 billion are categorised as Level 3 investments in the valuation hierarchy. This includes positions that are presented at fair value in the statement of financial position (investments in real estate of € 2.4 billion; 2019: € 2.3 billion) and those that are carried at amortised cost, but for which the fair value is required to be disclosed and for which the fair value is used to determine the excess value in the liability adequacy test (mortgage loans, private loans and inflation linked loans of € 39.0 billion; 2019: € 38.2 billion, on a fair value basis). Management's estimate of the valuation of Level 3 investments is developed using quotes from third-party brokers, external appraisals or internal cash flow modelling techniques that use significant unobservable inputs, including discount and capitalisation rates, default rates, liquidity assumptions, issuer specific credit adjustments and indicative quotes from market makers. These estimates involve significant judgment by management and have a higher potential risk to be affected by error or management bias. Therefore, this area is considered a key audit matter. Our focus considered both the positions that are presented at fair value on the balance sheet and those positions carried at amortised cost on the balance sheet, but for which fair value is required to be disclosed. The risk is considered higher for investments traded in the absence of an active market as the fair value of those instruments is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques using unobservable data. The significant inputs used in valuing real estate are monthly rent rolls, capital expenditure budgets provided by the outsourcing partner, and discount rates and capitalisation rates obtained from external parties.	We assessed the design and tested the operating effectiveness of internal controls over the investments' valuation and impairment process including management's determination and approval of assumptions and methodologies used in model-based calculations, controls over data integrity and change management for internally operated valuation models and management's review of valuations provided by external experts, brokers or data vendors, in addition to the evaluation of management's procedures to assess service organisation reports over real estate investments. Based on this work, we found that we, to the extent relevant for our audit, could rely on these controls. We performed substantive audit procedures to supplement procedures over internal controls testing. These procedures included, among others, developing an independent estimate of the value for a sample of investments by obtaining independent pricing from third party vendors, if available. We evaluated the reasonableness of management's estimate for the full population of private loans and inflation linked notes by developing an independent range of prices utilising a range of prices and comparing management's estimate to the independently developed ranges. Developing the independent estimate involved utilising a range of available market inputs and assumptions and testing the completeness and accuracy of data provided by management. We assessed pricing models and the underlying methodologies against industry practice and valuation guidelines. We used real estate valuation experts to assess on a sample basis the fair value of properties as determined by management and as reported by outsourcing parties based on available market information. Based on our procedures we consider that the valuation of these investments was within the bandwidth that we consider acceptable. We also evaluated whether the disclosures in the consolidated financial statements are adequate and in accordance with EU-IFRS. We found the disclosures to be appropriate in this context.

Key audit matter	Our audit work and observations
In addition, real estate properties are valued using industry standard models and sales comparison based on the type of property. Given the nature of certain inputs/rates utilised and valuation methodology employed, the valuation of real estate has a high estimation uncertainty and a change in assumptions could have a significant effect on net income and shareholders' equity.	
Uncertainties in policyholder claims and litigation. *Refer to Note 39 'Commitments and contingencies'.* The insurance industry continues to face consumer activism and regulatory scrutiny over product design and selling practices. The Group has encountered claims and litigations in this respect. Depending on the actual legal position and expectations from management, claims, including related litigations, are either provided for as a liability or reflected as contingent liabilities in the notes to the financial statements based on the criteria as outlined in IAS 37. The Group uses internal and external legal experts where applicable to evaluate its legal positions. Given the uncertainty and judgment in this area in terms of valuation and presentation and disclosure, this area is subject to the risk of understatement of recorded liabilities and incomplete disclosure of contingent liabilities. Therefore, we determined this as a key audit matter.	We gained an understanding of the policyholders' claims and litigations through discussions with management, the general legal counsel and the compliance office. We have read the internal position papers prepared by the Group. We also obtained lawyers' letters to the extent considered necessary for our audit. For all (potential) material claims, we tested the underlying facts and circumstances considered and assessed the best estimate of outflows as determined by the Group. We tested that the Group has adequately reflected the claims and litigations in either the provisions or the contingent liabilities by assessing these against the criteria in IAS 37. In this respect we assessed whether the Group has a present obligation (legal or constructive) as a result of a past event, whether it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Report on the other information included in the annual report

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

- the Report of the Board of Directors;
- the Report of the Supervisory Board; and
- 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.

Report on other legal and regulatory requirements

Our appointment

We were initially appointed as auditors of Aegon Nederland N.V. by the board of directors following the passing of a resolution by the shareholders of Aegon N.V. at the annual meeting held on 15 May 2013. We are the independent auditor for a total period of 7 years.

Responsibilities for the financial statements and the audit

Responsibilities of the board of directors and the supervisory board for the financial statements

The board of directors is responsible for:

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

As part of the preparation of the financial statements, the board of directors is responsible for assessing the Group'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 Group 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 Group's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our 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 Nederland N.V.

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

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

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our 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 Group'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 Group'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 Group 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 supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the risk and audit committee. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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