Annual report 2020

Aegon Schadeverzekering N.V.

Aegon Schadeverzekering N.V.
Aegonplein 50
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Report of the Board of Directors

1. General information

Aegon Schadeverzekering N.V. ('Aegon Schadeverzekering'), 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 27085000. Aegon Schadeverzekering is wholly owned by Aegon Nederland N.V. ('Aegon Nederland').

1.1. Strategy, purpose and mission statement

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

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

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

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

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

Financial assets
The Life activities of Aegon Nederland (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. 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.

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

Property & Casualty
Technological developments lead to new customer behavior with an impact on the property and casualty ('P&C') business. As such, it is necessary that we change our P&C business to ensure that we can execute our refined strategy according to plan. To be successful and create happy and loyal customers and a growing and healthy portfolio we need to further develop into a digital, data driven client orientated organization.

Income Protection (Accident & Health)
Income Protection wants to evolve from a product-oriented Accident & Health insurer to a customer-focused financial and health services provider known for its innovation: Income Protection offers solutions to mitigate the financial risks for employers, employees and entrepreneurs by offering insurance for absence and disability. Income Protection is also a health service provider who, together with, amongst others reintegration partners, prevents and reduces absence and disability. Income Protection plans to continue her journey towards digitalization and robotization; in 2020 the new platform called "Novum" was realized.

1.2. Main activities, products, services and geographic areas

Aegon Schadeverzekering is incorporated and domiciled in the Netherlands and is active in the Non-Life and Income insurance market in respect to Accident & Health insurance and general insurance (Property & Casualty). Aegon Schadeverzekering operates from The Hague.

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).

1.4. Employees

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

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.

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

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

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

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

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

For more information regarding the remuneration of the Board of Directors please refer to note 21 'Commissions and expenses' in the 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.

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 Schadeverzekering's income statement movements being largely driven by spread and interest rate movements.

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 Schadeverzekering's financial performance
The impact of COVID-19 on Aegon Schadeverzekering was relatively limited. When the pandemic started in the first quarter of 2020 with full force, Aegon Schadeverzekering anticipated that the results would come under severe pressure, fearing setbacks in terms of absenteeism and travel insurance. 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 Schadeverzekering.

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

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.

Commercially Aegon Schadeverzekering P&C has actively played into the trend of market consolidation of both insurers as well as the consolidation of the independent financial advisor ("IFA") market. Strong focus on profitable advisor portfolios with help of a market segmentation concept is successfully helping us to maintain a foothold in the IFA market, while also building on our digital and direct capabilities. Furthermore, a continued push towards digitization across all sales channels is ongoing, improving our efficiency and customer satisfaction. These efforts has materialized in the Net Promotor Score shifting into the positive range during the year, ending the year 2020 at +3 (r-NPS) for Non-Life P&C.

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.

Most notable impact of COVID-19 has been on our Travel Insurance book, where initially expectations for claims mounted. This was due to the fact that our policies contained a cancellation cover which made holidays (booked in advance of the COVID-19 pandemic) eligible for a claim payout. The combination of astute business actions in customer guidance as well as necessary changes to the insurance cover have greatly limited our exposure in the earliest stages of the pandemic. All necessary changes were in place within two weeks after the World Health Organization officially declared COVID-19 a pandemic.

In the months that followed, the Crisis Management Team was provided with regular updates on the (expected and observed) impacts, which over time turned out to be manageable from both operational and financial perspective. Most notable driver behind the lower actual impact, is the nation-wide institution of travel vouchers by travel organizations which have covered the deferred holiday plans of people in the Netherlands. Our estimates are that roughly 90% of claims have been prevented by the broad adaptation of these vouchers. The vouchers have in the process also been covered by a guarantee fund strengthened by the Dutch government, providing surety for the consumers.

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 (as a result of low Christmas holiday travel). There have been claims with a value of EUR 3 million due to the COVID-19 crisis in the Travel Insurance book.

Overall, the risk profile of the Non-Life P&C book has shown a stable positive development in 2020 which has further solidified steps made from structurally loss-making to an in-control insurer with a healthy loss ratio over the recent years. Profit margins of the non-life retail insurance market are still under pressure as a result of high competition. Aegon Schadeverzekering has achieved a substantial return improvement and has improved its portfolio strength considerably. The focus for the coming years is on achieving growth / scale (decrease costs per policy and collect & use more data) and the increasing the use of smart technology (by using advanced analytics) in both products offered as well as internal processes. Both are conditional for a sustainable and competitive business model. Furthermore, we retain strong focus on being "in control".

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. One direct effect has been a slowdown in the commercial activity throughout the market, which has been observed in the commercial season leading up to 2021. Furthermore, a commercial decline in the individual disability market (insurance for self-employed) has been observed in the first half year of 2020. Further development of the market hinges on the duration of lockdowns and support offered to self-employed workers by government.

From an underwriting perspective an improvement has been made by starting the conversion of the individual disability (AOV) book to a new product offering. Competitive pressures remain, as well as market pressure as a result of government suspending obliged AOV.

In the Income market, Aegon Schadeverzekering has remained its commercial position, despite seeing increased market activity from (foreign) entrants as well as an increase in distribution through proxy holders. Cost efficiency and the optimization of the chain from customer to provider are still important drivers in the non-life market. Throughout these challenging conditions, focus remains on providing excellent service to employers and individuals. This is reflected in the Net Promotor Scores which have risen in 2020 for both group insurance and individual insurance customers. For the years to come, Aegon Schadeverzekering will continue its investments and specifically will continue to convert towards a digitalized all round service provider for absence and disability. During 2020, the Novum project delivered the first building blocks of the future target architecture for our collective Accident & Health portfolio. Migration of the portfolio is planned for 2021-2022.

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.

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 financial statements.

1.13. 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.

1.14. IBOR transition

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

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

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

1.15. 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.

1.16. Asset and Liability Management and Financial instruments

In order to execute on Aegon Schadeverzekering'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 Schadeverzekering 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 Schadeverzekering makes use of predominantly fixed income instruments for matching its liabilities. These are, to a large extent, high quality sovereign and corporate bonds, and loans. In addition, a portfolio of residential mortgages has been built up to match liability cash flows. Derivatives are used in addition to these instruments in order to hedge part of the interest rate risk. Reinsurance contracts are used to align the risk profile with the risk appetite.

Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering has to ensure availability of sufficient high quality collateral at all times in order to comply with collateral calls from our counterparties. Our liquidity stress testing is set up to monitor this need. Operational risk is another key risk, considering derivatives are specialized instruments that require expertise as well as a specific (IT) infrastructure in order to be managed properly. Furthermore, as recent developments have shown regulatory risk as a category within operational risk, it needs constant monitoring. Our automated processes regarding real-time monitoring, automated controls and integrated reporting reduce operational risks and enable us to comply with increasing demands from regulations.

Aegon Nederland's Risk & Capital Committee, which meets at least once a month, determines and monitors the capital position, the balance sheet as well as the market value income statement. 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 monitor the liquidity position of Aegon Schadeverzekering.

2. Financial information

2.1. Developments during the year

The income before tax in 2020 was a loss of EUR 9 million, compared to a gain before tax in 2019 of EUR 35 million. In the following paragraphs the specific items of the net loss are further explained.

Revenues

The total revenues increased with EUR 17 million to EUR 392 million (2019: 375 million), mainly due to higher premium income in the 'Accident and Health' segment due to higher sales on products such as sick leave and WIA Excedent.

Results from financial transactions

The reported result from financial transactions were a gain of EUR 3 million (2019: a loss of EUR 8 million). This is largely explained by the result on the derivatives portfolio, which was EUR 8 million positive in 2020, and a loss of EUR 7 million in 2019. Furthermore Aegon Schadeverzekering had EUR 4 million of net currency losses in 2020, these were nil in 2019.

Policyholder claims and benefits

Policyholder claims and benefits were significantly higher with EUR 276 million, compared to EUR 209 million in 2019. The increase is driven by several developments in the 'Accident and health insurance' portfolio, among others: the decrease in interest rates, several model changes, growth of the portfolio and parameter updates. Refer to note 3.1 'Changes in estimates' and note 12 'Insurance contracts' in the financial statements for more information on this.

The impact of COVID-19 on claims in 2020 was limited. In the travel insurance business, there were EUR 3 million claims due to the COVID-19 crisis. Refer to note 3.3 'Uncertainty from COVID-19 for more information on this.

Commissions and expenses

Commissions and expenses amounted to EUR 123 million in 2020, slightly higher than in 2019 (EUR 117 million), due to higher recharged staff expenses by Aegon Nederland.

Shareholders' equity

Shareholders' equity decreased by EUR 1 million to EUR 382 million at December 31, 2020 compared to EUR 383 million at year-end 2019. The decrease is explained by net loss over 2020 (EUR 7 million), partly offset by the increase of revaluation reserve relating to the Available for sale debt securities portfolio of EUR 6 million.

Cash flows and funding

During 2020 the net cash flows increased with EUR 6 million (2019: increase EUR 118 million) due to cash flow movements on operating items as well as the cash flow movement from financing activities (mainly loans redemptions). Refer to the 'Cash flow statement' in the financial statements for more information.

Circumstances that impact future income and results

No significant changes are expected for the following year regarding investing, financing and personnel. Furthermore, Aegon Schadeverzekering didn't perform significant activities regarding research and development during the year, nor expects to do so in the near future. The main drivers of future income and results are market and demographic developments.

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).

Aegon Schadeverzekering is subject to prudential supervision of DNB.

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

Aegon Schadeverzekering uses the standard formula to calculate the Solvency Capital Requirement in its Solvency position of its insurance activities under Solvency II.

As per December 31, 2020, Aegon Schadeverzekering capital position is:

	31-12-2020*	31-12-2019
Own Funds	409	424
Standard formula required capital	232	259
Solvency II ratio	176%	163%

*The Solvency II ratio for 2020 is an estimate, and is not final until filed with the regulator and subject to supervisory review.

The Solvency II ratio of Aegon Schadeverzekering increased during 2020. The Own Funds decreased mainly as a result of the annual parameter update and market movements (decreased interest rates and widened credit spreads), with an offset from normalized capital generation.

The SCR decreased 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. This reinsurance agreement resulted in an increase of the Own Funds with EUR 9 million and a decrease of the SCR of EUR 60 million. As a result, the Solvency II ratio of Aegon Schadeverzekering increased from 135% to 175%. The decrease of the SCR is partly offset by the impact from a lower LAC DT following the decrease in the worst case tax factor ("WCTF") and the impact from the change in the corporate tax rate (from 21.7% to 25%).

The lowering of Ultimate Forward Rate (UFR) from 3.75% to 3.60% in 2021 would result in an estimated impact of 0.2%-points decrease of the Solvency II ratio.

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.

With the introduction of Solvency II for EEA countries, Aegon Schadeverzekering 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. Aegon Schadeverzekering operates in excess of this requirement.

Recent developments Solvency II

DNB Q&A for LAC DT

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.

The additional DNB guidance did not impact the factor of LAC DT for Aegon Schadeverzekering. However, Aegon Schadeverzekering already lowered the factor of LAC DT from 75% at year-end 2019 to 50% at year-end 2020 to account for economic uncertainty (low interest rates, drags) and lower new business expectations. 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 Schadeverzekering 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.

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 Schadeverzekering is managed on regulatory requirements, rating agency requirements and/or self-imposed criteria. For more details about the Solvency II target range for Aegon Schadeverzekering refer to note 4.4 'Capital management and solvency' in the 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 Schadeverzekering operates in a changing environment: the labor market changes rapidly, the interest rates remain low, and employers and employees demand more flexibility. 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 Schadeverzekering is positioning itself well with growing insurance solutions.

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

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

The impact on Aegon Schadeverzekering 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

There are no 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.

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	

Financial statements 2020 of Aegon Schadeverzekering N.V.

Statement of financial position

(before profit appropriation)

	Note	31-12-2020	31-12-2019
Amounts in EUR thousand			
Assets			
Cash and cash equivalents	5	185.912	179.967
Investments	6	1.268.797	1.234.024
Derivatives	7	31.307	14.187
Loans and group loans	8	20.332	54.588
Reinsurance assets	9	22.283	21.818
Other assets and receivables	10	12.985	10.623
Total assets		**1.541.615**	**1.515.207**
Equity and liabilities			
Equity	11		
- Share capital		30.858	30.858
- Share premium		141.808	141.808
- Revaluation reserves		37.826	32.373
- Retained earnings		178.139	151.770
- Net income / (loss)		-6.601	26.369
		382.030	**383.178**
Insurance contracts	12	1.075.798	1.000.534
Derivatives	7	48.318	37.532
Borrowings and group borrowings	13	2.640	-
Deferred tax liabilities	14	8.736	4.687
Other liabilities and accruals	15	24.093	89.277
Total liabilities		**1.159.585**	**1.132.030**
Total equity and liabilities		**1.541.615**	**1.515.207**

Income statement

(for the year ended December 31, 2020)

Amounts in EUR thousand	Note	2020	2019
Revenues			
Premium income	16	375.289	357.728
Investment income	17	16.895	16.852
Fee and commission income		224	224
Total revenues		**392.408**	**374.804**
Income from reinsurance ceded	18	23.724	14.964
Results from financial transactions	19	2.706	-7.648
Total income		**418.839**	**382.120**
Charges			
Premiums paid to reinsurers	16	28.151	19.393
Policyholder claims and benefits	20	276.257	209.472
Commissions and expenses	21	122.840	116.940
Impairment charges / (reversals)	22	-22	65
Interest charges and related fees	23	1.104	776
Total charges		**428.330**	**346.645**
Income / (loss) before tax		**-9.491**	**35.475**
Income tax	24	2.890	-9.106
Net income / (loss)		**-6.601**	**26.369**
Net income / (loss) attributable to the parent company		**-6.601**	**26.369**

Statement of comprehensive income

(for the year ended December 31, 2020)

Amounts in EUR thousand	Note	2020	2019
Net income		**-6.601**	**26.369**
Items that may be reclassified to profit or loss:			
Gains / (losses) on revaluation of available-for-sale investments	11.3	8.895	17.906
Gains / (losses) transferred to the income statement on disposal and impairment of available-for-sale investments	11.3	-42	-868
Income tax relating to items that may be reclassified	11.3	-3.401	-3.913
Total other comprehensive income / (loss)		**5.453**	**13.126**
Total comprehensive income / (loss)		**-1.148**	**39.495**
Total comprehensive income / (loss) attributable to the parent company		**-1.148**	**39.495**

Statement of changes in equity

Amounts in EUR thousand

2020	Share capital	Share premium	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	30.858	141.808	32.373	151.770	26.369	383.178
Net income / (loss) prior year retained	-	-	-	26.369	-26.369	-
Net income / (loss) current year	-	-	-	-	-6.601	-6.601
Other comprehensive income / (loss)	-	-	5.453	-	-	5.453
Total comprehensive income / (loss)	**-**	**-**	**5.453**	**26.369**	**-32.969**	**-1.148**
Addition to share premium	-	-	-	-	-	-
At December 31	**30.858**	**141.808**	**37.826**	**178.139**	**-6.601**	**382.030**

2019	Share capital	Share premium	Revaluation reserves	Retained earnings	Net income / (loss)	Total
At January 1	30.858	116.808	19.247	108.952	42.818	318.683
Net income / (loss) prior year retained	-	-	-	42.818	-42.818	-
Net income / (loss) current year	-	-	-	-	26.369	26.369
Other comprehensive income / (loss)	-	-	13.126	-	-	13.126
Total comprehensive income / (loss)	**-**	**-**	**13.126**	**42.818**	**-16.449**	**39.495**
Addition to share premium	-	25.000	-	-	-	25.000
At December 31	**30.858**	**141.808**	**32.373**	**151.770**	**26.369**	**383.178**

Cash flow statement

(for the year ended December 31, 2020)

Amounts in EUR thousand	Note	2020	2019
Income / (loss) before tax		**-9.491**	**35.475**
Results from financial transactions	19	-2.595	7.648
Amortization and depreciation		3.242	2.647
Impairment losses / (reversals)	22	-22	65
Adjustments of non-cash items		**625**	**10.359**
Insurance liabilities	12	74.800	-2.463
Accrued expenses and other liabilities	15	-52.742	63.104
Accrued income and prepayments	10	1.176	945
Changes in accruals		**23.234**	**61.586**
Purchase of investments (other than money market investments)	6	-128.430	-115.157
Purchase of derivatives		-1	-
Disposal of investments (other than money market investments)	6	94.509	120.172
Disposal of derivatives	7	1.384	254
Cash flow movements on operating items not reflected in income		**-32.538**	**5.269**
Tax (paid) / received		-12.442	-13.515
Other		-340	-190
Net cash flows from operating activities		**-30.951**	**98.985**

	Note	2020	2019
Net cash flows from investing activities		**-**	**-**
Loans to group related parties	8	-	-5.860
Repayment of loans by group related parties	8	34.256	-
Proceeds from group borrowings	13	2.640	-
Addition to share premium	11	-	25.000
Net cash flows from financing activities		**36.896**	**19.140**
Net increase / (decrease) in cash and cash equivalents		**5.945**	**118.125**
Cash and cash equivalents at the beginning of the year	5	179.967	61.842
Cash and cash equivalents at the end of the year		**185.912**	**179.967**

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)	20.234	20.886
Interest paid (excluding derivatives)	1.104	776
Interest derivatives received / (paid)	-3.369	-4.956

Reconciliation of liabilities arising from financing activities
For 2020 the net cash flows from financing activities relate mainly to the increase or decrease in of group loans; in 2019 these cash flows related mainly to the capital contribution received from Aegon Nederland.. 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 financial statements

1. General information

Aegon Schadeverzekering 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 27085000. Aegon Schadeverzekering N.V. (or Aegon Schadeverzekering) is wholly owned subsidiary of Aegon Nederland N.V. in The Hague. Aegon N.V., also domiciled in The Hague, is the ultimate parent of the group. Aegon Schadeverzekering is active in accident and health insurance, and general insurance.

2. Significant accounting policies

2.1. Basis of presentation

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

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

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

The preparation of financial statements in conformity with IFRS-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, policyholders claims and benefits, insurance contracts (including the liability adequacy test, or LAT), corporate income taxes and the potential effects of resolving litigation matters.

Going Concern

The financial statements of Aegon Schadeverzekering have been set up assuming a going concern basis of accounting based on the reasonable assumption that Aegon Schadeverzekering 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 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 Schadeverzekering is appropriate in preparing the financial statements.

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

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

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

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

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 Schadeverzekering, 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	Low
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.

<u>IFRS 9 Financial Instruments</u>
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 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 its liabilities, and the insurer does not have significant activities unrelated to insurance.

Aegon Schadeverzekering performed this analysis at December 31, 2015, and concluded that it meets the requirements for the temporary exception as > 90% of its liabilities are connected with insurance activities. There are no (significant) changes in the activities of Aegon Schadeverzekering since the performance of this analysis. As a result, Aegon Schadeverzekering elected to defer implementation of IFRS 9 until January 1, 2023.

As Aegon Schadeverzekering 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 Schadeverzekering 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 the 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	506.181	7.162	473.900	14.727
	Other	2.410	-92	4.008	184
Money Markets and other short-term investments	SPPI	-	-	-	-
	Other	210.139	-798	248.766	-187
Mortgage loans	SPPI	384.456	-4.603	423.022	8.799
	Other	-	-	-	-
Private loans	SPPI	124.042	897	112.794	1.752
	Other	-	-	-	-
Other financial assets	SPPI	-	-	-	-
	Other	235	-	285	-
Loans and group loans	SPPI	20.332	-	54.588	-
	Other	-	-	-	-
Total		**1.247.793**	**2.565**	**1.317.362**	**25.275**

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 25 '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	Loans and group loans	**Total**
AAA	215.180	-	118.916	-	334.095
AA	93.052	-	-	-	93.052
A	158.805	-	-	20.332	179.137
BBB	37.232	-	-	-	37.232
BB	1.912	-	-	-	1.912
B	-	-	-	-	-
CCC or lower	-	-	-	-	-
Without external rating (not rated)	-	346.282	-	-	346.282
Total	**506.181**	**346.282**	**118.916**	**20.332**	**991.710**

2019	Debt securities	Mortgage loans	Private loans	Loans and group loans	**Total**
AAA	238.956	-	108.422	-	347.378
AA	46.204	-	-	30.000	76.204
A	158.556	-	-	24.588	183.145
BBB	30.184	-	-	-	30.184
BB	-	-	-	-	-
B	-	-	-	-	-
CCC or lower	-	-	-	-	-
Without external rating (not rated)	-	380.620	-	-	380.620
Total	**473.900**	**380.620**	**108.422**	**54.588**	**1.017.530**

As no external ratings are available for Aegon Schadeverzekering'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 Schadeverzekering. 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	1.921	1.912	-	-
Total	**1.921**	**1.912**	**-**	**-**

Given the absence of external ratings for Aegon Schadeverzekering'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 Schadeverzekering'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).

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 Schadeverzekering's financial statements is expected to be significant.

2.2. Foreign exchange translation

The financial statements is presented in euro, which is Aegon Schadeverzekering's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Aegon Schadeverzekering 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.

2.3. Offsetting of assets and liabilities

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

2.4. 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 or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments.

2.5. Investments

General account investments comprise financial assets, excluding derivatives. Financial assets are recognized at trade date when Aegon Schadeverzekering 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 Schadeverzekering; and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances Aegon Schadeverzekering 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 Schadeverzekering 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.

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

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

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

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

Derecognition
A financial asset is derecognized when the contractual rights to the asset's cash flows expire or when Aegon Schadeverzekering 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 Schadeverzekering has neither transferred nor retained significantly all the risk and rewards and retained control are recognized to the extent of Aegon Schadeverzekering's continuing involvement. If significantly all risks are retained, the assets are not derecognized.

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

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

2.6. Derivatives

2.6.1. Definition

Derivatives are financial instruments 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 Schadeverzekering 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.

2.6.2. Measurement

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

2.7. Reinsurance assets

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

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

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

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

2.8. Other assets and receivables

Other assets and receivables include trade and other receivables, and prepaid expenses.

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

2.9. 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 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.

2.9.1. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. 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.

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.

2.9.2. 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 recognized 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.

2.9.3. 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.

2.9.4. Impairment of reinsurance assets

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

2.10. Equity

Share capital is stated at par value. The share premium reserve, where applicable, relates to capital contributions which have occurred since incorporation without issuing new shares. The revaluation reserves comprise unrealized gains and losses on available-for-sale investments, net of tax. Upon sale of available-for-sale securities, the realized result is recognized through the income statement. 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.

2.11. Insurance contracts

Insurance contracts are accounted for under IFRS 4 – Insurance Contracts. In accordance with this standard, Aegon Schadeverzekering 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 Schadeverzekering applies in general, non-uniform accounting policies for insurance liabilities to the extent that it was allowed under Dutch Accounting Principles. If any changes are made to current accounting policy for insurance contracts, these will be in accordance with IFRS 4.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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).

2.11.1. 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.

2.11.2. *Liability Adequacy Test*

At each reporting date the adequacy of the non-life insurance liabilities is assessed. This test is performed on a total level of insurance provisions. 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 the LAT curve. The LAT curve is constructed using 6 months swaps until the last liquid point of 30 years.

2.12. Borrowings and group borrowings[1]

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 Schadeverzekering's obligation under the contract expires or is discharged or cancelled.

2.13. Assets and liabilities relating to employee benefits

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

2.14. Tax assets and liabilities

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

2.14.1. *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 Schadeverzekering is a member of the Aegon N.V. tax group and settles its current tax liabilities through an current account with the head of the tax group as if it were an autonomous taxpayer. Aegon Schadeverzekering 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.

2.14.2. *Deferred tax assets and liabilities*

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of 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 Schadeverzekering 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.

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

2.15. Other liabilities and accruals

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

2.16. Contingent assets and liabilities

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

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

2.17. Premium income and premium outgoing reinsurance

Gross premiums are recognized as revenue when they become receivable. 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.

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.

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

2.18. 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.

2.19. Income from reinsurance ceded

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

2.20. 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 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.

2.21. 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.
- 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 foreign currency result comprises net foreign currency gains and losses.

2.22. Commissions and expenses

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

2.23. 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.

2.24. 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.

2.25. 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 (refer to paragraph 2.5 and 2.6), insurance contracts (refer to paragraph 2.11), income taxes (refer to paragraph 2.14) and the potential effects of resolving litigation matters (refer to paragraph 2.16). Accounting policies that are critical to the financial statements presentation and that require complex estimates or significant judgment are described in the following sections.

3.1. Changes in estimates

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 reserves and decreasing 'Income before tax' with EUR 15 million.

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. The impact of this update results in increase of the technical provisions and decrease of 'Income before tax' with EUR 2 million.

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

As part of the annual parameter update process, the morbidity and mortality assumptions of the income insurance product WIA ("Wet Werk naar Inkomen en Arbeidsvermogen") were updated, resulting in an increase in technical provisions and decrease of the 'Income before tax' of EUR 12 million. The update of the Property and Casualty risk assumptions results in a decrease in technical provisions and increase of the 'Income before tax' of EUR 3 million.

3.2. Valuation of assets and liabilities arising from 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, future expenses and lapses. The main assumptions used for the other non-life branches relate to claims statistics (including incurred but not reported, or 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 Schadeverzekering 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 Schadeverzekering's claims history, augmented where necessary with industry information or data from the Dutch Association of Insurers or the Employee Insurances Implementing Agency (UWV or *Uitvoeringsinstituut Werknemers-verzekeringen*) with respect to WIA.

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.

3.3. 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 25 'Fair value of assets and liabilities' provides more information on the fair valuation methods and assumptions applied, as well as movements or transfers in fair value hierarchy. Currently, there is insufficient credible experience with which to update actuarial assumptions for COVID-19 specifically.

In certain businesses losses have incurred related to COVID-19. In the travel insurance business, there were EUR 3 million claims due to the COVID-19 crisis.

Impairment assessments were performed where deemed necessary, also as a result of the uncertainty in the market and the impact of COVID-19. 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 Schadeverzekering 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'.

3.4. Determination of fair value and fair value hierarchy

The following is a description of Aegon Schadeverzekering'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 (e.g. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modelled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

3.5. 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 Schadeverzekering 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 Schadeverzekering 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.

4. Risk Management

4.1. Enterprise Risk Management

4.1.1. Introduction

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

4.1.2. Risk Management structure and governance

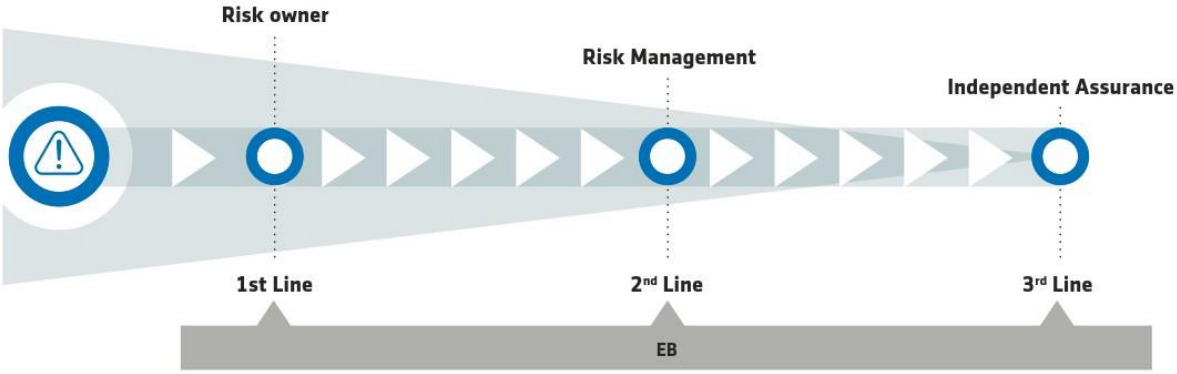
Risk committees

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

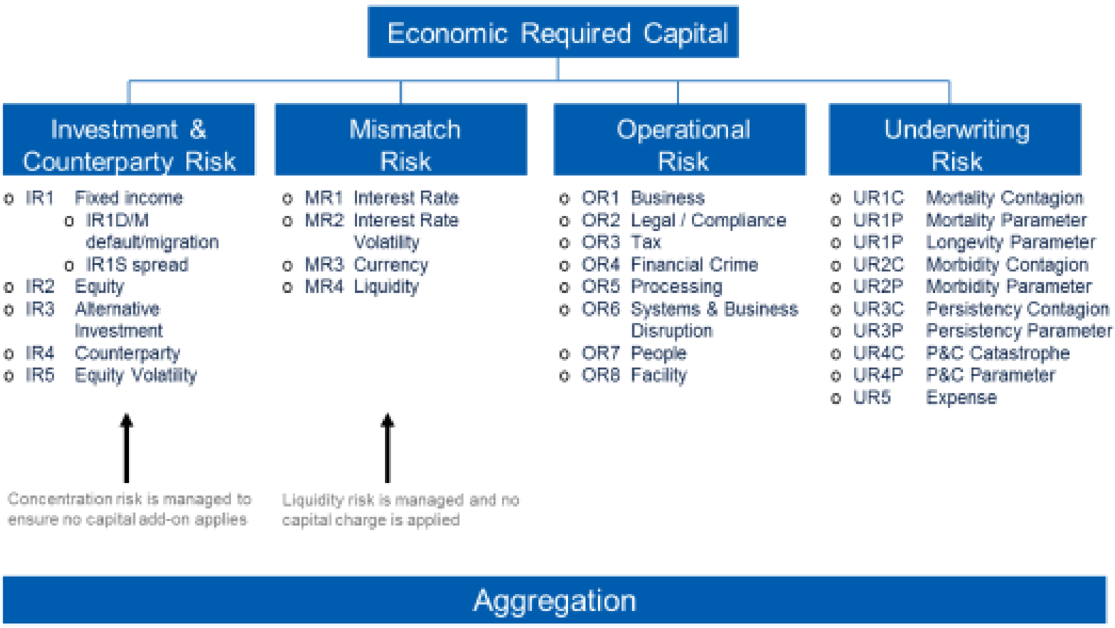
Aegon Nederland's enterprise risk management framework considers risk from various perspectives and can be decomposed into multiple components. However, enterprise risk management is not strictly a serial framework, where one component affects only the next. It is a multidirectional, iterative framework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

Category	Risk description	Measures taken
		services by outsourcing part of her administration to more specialized parties.
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

Category	Risk description	Measures taken
		a risk-based manner. Finally, regular governance (Assumptions & Methodology Committee, Risk & Capital Committee and Model Change Board) is followed for approval of new models.
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.

Category	Risk description	Measures taken
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.
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 Schadeverzekering faces currency exchange risk on investments 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 Schadeverzekering's sensitivity analysis are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each significant market risk, the analysis shows how net income and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon Schadeverzekering'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 Schadeverzekering's accounting policies[2]. 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 Schadeverzekering 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. As a result, economic sensitivities predominantly impact equity but leave net income unaffected.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon Schadeverzekering'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 Schadeverzekering'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.

4.2.2. Interest rate risk

Aegon Schadeverzekering's policy is that the interest rate risk on its balance sheet must be kept as limited as possible on market value principles. Under current IFRS, this means that movements in interest rates may lead to movements in the (IFRS) capital as a result of the accounting mismatch, while the capital on market consistent policies is much less sensitive to interest rate movements. The IFRS result may also be sensitive to movements in interest rates despite hedging risks. Persistent low interest rates will lead to a lower return on reinvestments. Coupon income on existing investments will not change in those circumstances.

Aegon Schadeverzekering manages its maturity mismatch (the difference between the average maturity of liabilities and the average maturity of investments) within given limits. The position is actively monitored and adjusted when necessary. Aegon Schadeverzekering manages interest rate risk closely, taking into account all of the complexity on the conduct of policyholders and management action, making active use of derivatives and other risk mitigation instruments.

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, there will be unrealized gains on certain investments which positively affect the net income and equity. If the liability adequacy test shows that the insurance liability in the statement of financial position is in deficit, this has to be supplemented through the income statement.

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

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%

Sensitivity of interest rates
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 have a negative effect on shareholders' equity and net income in the current year because it results in unrealized losses on investments that are carried at fair value. The 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 not fully reflected in the sensitivities because many of these liabilities are not measured at fair value. Over time, the medium-term reduction in net income due to rising interest rates would be offset by higher net income in later years, everything else remaining equal. Therefore, higher interest rates are not considered a long-term risk to Aegon Schadeverzekering.

	2020		2019	
Parallel movement of yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	38.309	13.237	1.178	-21.217
Shift down 100 basis points	-45.752	-16.569	-943	25.191

Parallel movements of the yield curve impacts the fair value of the fixed income portfolio. As the fixed income portfolio is classified as 'available for sale', these fair value movements only impact equity. The impact on net income results from the interest sensitivity of the swap portfolio of Aegon Schadeverzekering and the insurance liabilities for WIA and AOV group contracts, which are both discounted with Aegon Schadeverzekering's LAT curve. Aim of Aegon Schadeverzekering's hedge strategy is to protect the Own Funds under Economic Framework and Solvency II, causing an accounting mismatch under IFRS, as under IFRS some balance sheet items have a different valuation treatment than fair value. Aegon Schadeverzekering increased the swap portfolio for hedging purposes resulting in lower interest sensitivities (through the income statement) compared to 2019. For the portfolios WIA and AOV Collectief the insurance liabilities are discounted using the IFRS LAT cure, resulting in an impact for interest sensitivity, which was not applied in 2019. As a result of this the interest sensitivity (through the income statement) has increased significantly compared to 2019.

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 Schadeverzekering bears the risk for investment performance which is equal to the return of principal and interest. Aegon Schadeverzekering is exposed to credit risk on its general account fixed-income portfolio, over-the-counter derivatives and reinsurance contracts. During financial downturns, Aegon Schadeverzekering can incur defaults or other reductions in the value of these securities and loans, which could have a materially adverse effect on Aegon Schadeverzekering's business, results of operations and financial condition.

The table below shows the maximum exposure of Aegon Schadeverzekering to credit risk from investments in general account financial assets and reinsurance assets, collateral held and net exposure.

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

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

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

Positions for general account in the balance sheet

2020	Maximum exposure credit risk	Collateral received							Net exposure
Amounts in EUR thousand		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	251.558	-	-	-	-	-	-	-	251.558
Debt securities	551.780	-	-	-	-	-	-	-	551.780
Mortgage loans *	334.849	3.073	-	686.962	17	-	-355.517	334.536	313
Private loans	118.916	-	-	-	-	-	-	-	118.916
Other loans	261	-	-	-	-	-	-	-	261
Derivatives with pos. values	31.307	-	-	-	-	31.307	-	31.307	-
Loans and group loans	20.332	-	-	-	-	-	-	-	20.332
Reinsurance assets	22.283	-	-	-	-	-	-	-	22.283
At December 31	**1.331.285**	**3.073**	**-**	**686.962**	**17**	**31.307**	**-355.517**	**365.843**	**965.442**

*The base-adjustment of EUR 11 million has been excluded from the maximum exposure credit risk 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 thousand	Maximum exposure credit risk	Collateral received							Net exposure
		Cash	Securities	Real estate	Guarantees **	Master netting agreement	Surplus collateral	Total	
Shares	251.829	-	-	-	-	-	-	-	251.829
Debt securities	492.867	-	-	-	-	-	-	-	492.867
Mortgage loans *	367.964	3.122	-	690.727	13	-	-326.660	367.202	762
Private loans	108.422	-	-	-	-	-	-	-	108.422
Other loans	285	-	-	-	-	-	-	-	285
Derivatives with pos. values	14.187	-	-	-	-	14.187	-	14.187	-
Loans and group loans	54.588	-	-	-	-	-	-	-	54.588
Reinsurance assets	21.818	-	-	-	-	-	-	-	21.818
At December 31	**1.311.962**	**3.122**	**-**	**690.727**	**13**	**14.187**	**-326.660**	**381.389**	**930.572**

*The base-adjustment of EUR 13 million has been excluded from the maximum exposure credit risk 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. Limits are set by Aegon N.V. and also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon Nederland's internal rating of the counterparty. When the exposure to a counterparty exceeds 75% it is considered to be at a warning level and the assets are monitored more closely. A warning and violation list is sent to portfolio managers on a weekly basis. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit set by Aegon N.V. and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon N.V. The policy is reviewed regularly.

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

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

	2020	2019
AAA	270.000	270.000
AA	270.000	270.000
A	200.000	200.000
BBB	135.000	135.000
BB	75.000	75.000
B	38.000	38.000
CCC or lower	15.000	15.000

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 an Aegon N.V. level[3]. Sovereign exposures (regardless of rating) that are issued by the government of the functional currency of the Regions' business and also owned in that currency and sovereign exposures that are rated AAA by all three major agencies (S&P, Fitch and Moody's) are exempt from the policy.

The ratings distribution of the general account investments is presented in the table in note 4.2.4 'Credit rating'.

Spread sensitivities

Aegon Schadeverzekering is exposed to non-government spreads narrowing and government spread widening. Exposure to government spread sensitivities is contributed by exposure to spreads widening due to the reduction in value of its fixed income assets. Please find below the estimated sensitivities on shareholders' equity and on net income of Aegon Schadeverzekering for up and down shocks for credit spreads for the bond portfolio and liquidity premium shocks for general account insurance liabilities:

	2020		2019	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Bond credit spread - Shift up 50 bps	-575	-16.859	-	-19.565
Bond credit spread - Shift down 50 bps	582	18.231	-	21.151
Liquidity premium - Shift up 5 bps	1.207	1.207	1.398	1.398
Liquidity premium - Shift down 5 bps	-1.212	-1.212	-1.403	-1.403

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

4.2.4. Credit rating

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

Investments for general account and reinsurance assets by rating

2020	Amortized cost	Fair value	Reinsurance assets	Total 2020
AAA	118.916	215.180	-	334.095
AA	-	122.360	18.936	141.296
A	-	163.417	2.768	166.184
BBB	-	71.748	-	71.748
BB	-	7.692	-	7.692
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	346.543	254.248	579	601.370
Total on balance credit exposure at December 31	**465.458**	**834.645**	**22.283**	**1.322.386**
Of which past due and/or impaired assets	1.509	-	-	1.509

2019	Amortized cost	Fair value	Reinsurance assets	Total 2019
AAA	108.422	241.795	-	350.217
AA	-	59.997	17.466	77.463
A	-	159.316	4.292	163.608
BBB	-	45.552	-	45.552
BB	-	-	-	-
B	-	-	-	-
CCC or lower	-	-	-	-
Assets not rated	380.905	252.224	59	633.189
Total on balance credit exposure at December 31	**489.328**	**758.883**	**21.818**	**1.270.029**
Of which past due and/or impaired assets	1.779	-	-	1.779

The ‘Assets not rated’ category relates to shares 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)	-	9.952
Total investments in unconsolidated structured entities at December 31	**-**	**9.952**
Financial - Banking	35.489	29.245
Financial - Other	6.733	2.540
Industrial	212.130	188.750
Utility	20.637	20.006
Sovereign exposure	276.791	242.374
At December 31	**551.780**	**492.867**
Of which past due and/or impaired assets	-	-

Credit risk concentration - mortgage loans	2020	2019
Apartment	34.061	38.194
Commercial	1.351	1.373
Residential	299.436	328.397
At December 31	**334.849**	**367.964**
Of which past due and/or impaired assets	1.482	1.724

Fair value of the mortgage loan portfolio:	2020	2019
Fair value mortgage loans	384.456	423.022
Loan to value (approximately)	54,4%	60,1%
Part of portfolio government guaranteed	60,5%	61,6%
Delinquencies in portfolio (defined as 60 days in arrears)	0,2%	0,1%
Impairments / (reversals) during the year	-22	-10

Unconsolidated structured entities
Aegon Schadeverzekering’s investments in unconsolidated structured entities such as RMBSs, CMBSs and ABSs are presented in the line item 'Investments' of the statement of financial position. Aegon Schadeverzekering’s interests in these unconsolidated structured entities can be characterized as basic interests, Aegon Schadeverzekering 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 Schadeverzekering invests primarily in senior notes. Additional information on credit ratings for Aegon Schadeverzekering’s investments in unconsolidated structured entities are disclosed in the sections that describe per category of debt securities the composition and impairment assessments. The composition of the structured entities portfolios of Aegon Schadeverzekering are widely dispersed looking at the individual amount per entity, therefore Aegon Schadeverzekering only has non-controlling interests in unconsolidated structured entities. Furthermore these structured entities are not originated by Aegon Schadeverzekering.

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

	2020		2019	
	Number of entities	Carrying amount	Number of entities	Carrying amount
EUR 0 < 10 million	-	-	6	9.952
At December 31	**-**	**-**	**6**	**9.952**

Aegon Schadeverzekering had limited investments in unconsolidated structured entities (such as ABSs) at year-end 2019, and none at year-end 2020. These unconsolidated structured securities are presented in the line item 'Investments' of the statement of financial position.

4.2.6. Past due and impaired financial assets

The tables that follow provide information on past due and impaired financial assets for Aegon Schadeverzekering. 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 Schadeverzekering takes the following factors into account when deciding whether to impair financial assets:

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

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

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

	2020	2019
Mortgage loans	-	347
Other	27	28
At December 31	**27**	**375**
Interest received on impaired financial assets	**-**	**20**

Past due but not impaired financial assets

2020	0-6 months	6-12 months	> 1 year	Total
Mortgage loans	1.482	-	-	1.482
Other loans	-	-	-	-
At December 31	**1.482**	**-**	**-**	**1.482**

2019	0-6 months	6-12 months	> 1 year	Total
Mortgage loans	1.377	-	-	1.377
Other loans	-	-	28	28
At December 31	**1.377**	**-**	**28**	**1.405**

4.2.7. Equity market risk and other investment risk

A decline in equity markets may adversely affect Aegon Schadeverzekering's profitability and shareholders´ equity and the amount of assets under management. Exposure to equity markets exists in the assets of Aegon Schadeverzekering liabilities. Asset exposure exists through direct equity investments in which Aegon Schadeverzekering bears all or most of the volatility in returns and investment performance risk as well as through investments in investment funds.

The general account equity portfolio of Aegon Schadeverzekering is as follows:

	2020	2019
Equity funds	248.262	248.766
Common shares	3.295	3.063
At December 31	**251.558**	**251.829**

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

	2020	2019
Financials	3.295	3.063
Funds	248.262	248.766
At December 31	**251.558**	**251.829**
Of which past due and/or impaired assets	-	-

Sensitivity analysis of net income and equity to equity markets

The equity investments in common shares comprise investments in entities where Aegon Schadeverzekering does not have significant influence and which relate to interests where it participates because of its insurance activities. These investments are not listed and as such net income and equity are not influenced by changes in equity prices with respect to these investments. The equity investment in funds consist of participations in money market investment funds, and these are not influenced by changes in equity prices either.

4.2.8. Liquidity risk

Liquidity risk is inherent in much of Aegon Schadeverzekering'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, and holdings in unlisted enterprises are not highly liquid. If Aegon Schadeverzekering requires more than the normal amount of cash at short notice, it may have difficulty selling these investments at attractive prices or in a timely manner.

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

Aegon Schadeverzekering 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[4] 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 Schadeverzekering'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.

[4] 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.

Results of excess liquidity
Aegon Schadeverzekering holds EUR 277 million (2019: EUR 242 million) of general account investments in money market products and sovereign bonds that are readily saleable or redeemable on demand in the event of a liquidity shortfall. It is also possible to use such bonds as the basis for repurchase contracts so that liquidity can be drawn from the market. The afore mentioned amounts are based upon Aegon Schadeverzekering 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 Schadeverzekering had sufficient liquidity in different scenarios and for all tested periods at year-end 2020.

On the basis of projected operating cash flows and the income from financial assets Aegon Schadeverzekering expects to be able to continue to meet its liabilities.

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

The tables below show the remaining contractual maturities for each category of financial liability. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that are payable on demand with a given delay are reported in the category 'On demand'. If there is a notice period, Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2020
Other financial liabilities	649	23.444	-	-	-	24.093
At December 31	**649**	**26.084**	**-**	**-**	**-**	**26.733**

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total 2019
Other financial liabilities	538	88.739	-	-	-	89.277
At December 31	**538**	**88.739**	**-**	**-**	**-**	**89.277**

Expected undiscounted cash flows relating to insurance contracts

Aegon Schadeverzekering'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 Schadeverzekering'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 12 'Insurance contracts'.

2020	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Insurance contracts	203.610	465.164	259.206	317.713	1.245.694
At December 31	**203.610**	**465.164**	**259.206**	**317.713**	**1.245.694**

2019	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Insurance contracts	205.154	448.390	268.960	311.071	1.233.576
At December 31	**205.154**	**448.390**	**268.960**	**311.071**	**1.233.576**

Maturity analysis – derivatives (contractual cash flows)

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

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

This table includes all financial derivatives regardless of whether they have a positive or a negative value. For interest rate derivatives only cash flows related to the 'paying leg' are taken into account for determining the gross undiscounted cash flows.

2020	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	3.702	13.472	9.517	9.023	35.714
Cash outflows	-	-6.732	-21.007	-14.564	-12.961	-55.264

2019	On demand	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	-	2.957	9.225	11.432	15.270	38.885
Cash outflows	-	-6.290	-18.875	-17.593	-20.725	-63.484

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.

Within underwriting risk, a distinction is made between Health underwriting and Non-life underwriting risk, where Health underwriting risk is further split in Health similar to life techniques ("SLT"), Health non similar to life techniques ("non-SLT") and Health Catastrophe.

Aegon Schadeverzekering 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 Schadeverzekering also performs experience studies for underwriting risk assumptions, where Aegon Schadeverzekering'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 Schadeverzekering. Where policy charges are flexible in products, Aegon Schadeverzekering uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon Schadeverzekering also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Underwriting risk	**Description of underwriting risks**
Health SLT - Longevity	The risk that improvements in life expectancy result in higher than expected claim payments
Health SLT – Disability & morbidity	The risk that disability rates are higher or recovery rates are lower than expected.
Health SLT - Lapse	The risk that lapse rates are higher or lower than expected resulting in lower profits and/or higher claim payments including guaranteed returns
Health SLT - Expenses	The risk that the value of future expenses is higher than expected resulting in lower profits.
Health SLT - Revision	The risk that annuity payments need to be revised following a change in the health status of the insured people.
Health non-SLT – Premium & reserve	The risk that premiums rates are set to low or best estimate reserves are set inadequately.
Health - Catastrophe	The risk of a mass accident, accident concentration or pandemic event.
Non-life – Premium & reserve	The risk that premiums rates are set to low or best estimate reserves are set inadequately.
Non-life - Catastrophe	The risk of a natural disaster, like windstorm or hail, or a man-made catastrophe.

Within Health SLT Underwriting Risk, Disability & morbidity is the dominant risk. Within Non-life and Health non-SLT Underwriting Risk, Premium & reserve is the dominant risk.

Risk Concentrations

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

Reinsurance contracts are contracts entered into by Aegon Schadeverzekering in order to receive compensation for losses on contracts written by Aegon Schadeverzekering (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance recoverable is recognized for the best estimate future cash flows, adjusted for the expected counterparty default. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Aegon Schadeverzekering is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying insurance contracts will continue to be reported in the statement of financial position.

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 per event. For general third-party liability, Aegon Schadeverzekering has reinsurance in place with a retention level of EUR 350,000 per event. In 2018 an reinsurance agreement for disability was 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)’ was signed with Arag SE Nederland (ARAG). 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 Schadeverzekering 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 9 million) and the Solvency II SCR (EUR -/-60 million). As a result, the Solvency II ratio of Aegon Schadeverzekering increased from 135% to 175%.

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

Risk sensitivity for underwriting risks

The main underwriting risk Aegon Schadeverzekering is exposed to is morbidity risk, i.e. the risk that more insured people become disabled. With more insured people disabled, more people receive benefits from their policy. In the scenario shown below, morbidity rates increase or decrease by with the disclosed percentage in all future years. The second underwriting risk relevant for Aegon Schadeverzekering is the longevity risk; an increase in mortality rates has a positive effect on the equity and net income as this leads to lower claims payments.

	2020		2019	
	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
5% increase in mortality rates	2.091	2.091	1.723	1.723
5% decrease in mortality rates	-2.108	-2.108	-1.757	-1.757
10% increase in morbidity rates	-35.676	-35.676	-30.536	-30.536
10% decrease in morbidity rates	35.676	35.676	27.314	27.314

The sensitivity of net income and equity for parallel shifts in morbidity and mortality relates to the AOV and WIA-portfolio and is in line with prior year sensitivity.

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.

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).

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 and Aegon Spaarkas conduct life insurance activities. Aegon Schadeverzekering 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 Schadeverzekering does not have material cross-border insurance business or business conducted through branch offices elsewhere in the EU.

4.4. Capital management and solvency

<u>Strategic importance</u>
Aegon Schadeverzekering’s approach towards capital management plays a vital role in supporting the execution of Aegon Schadeverzekering’s strategy. Aegon Schadeverzekering’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.

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

Aegon Schadeverzekering'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 Schadeverzekering's ERM framework ensures that Aegon Schadeverzekering's is adequately capitalized and that Aegon Schadeverzekering's obligations towards policyholders are always adequately met. As a specific part of this larger framework, Aegon Schadeverzekering'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 Aegon Schadeverzekering complied with externally imposed minimum capital requirements. Aegon Schadeverzekering applies the standard formula to calculate the required capital.

	31-12-2020*	31-12-2019
Own Funds	409	424
Standard formula required capital	232	259
Solvency II ratio	176%	163%

*The Solvency II ratio for 2020 is an estimate, and is not final until filed with the regulator and is subject to supervisory review.

The Solvency II ratio of Aegon Schadeverzekering increased during 2020. Own funds decreased mainly as a result of the annual parameter update and market movements (decreased interest rates and widened credit spreads), with a offset from normalized capital generation. The SCR decreased as a result of a new reinsurance agreement for income insurance ("AOV"), effective per December 31, 2020. The impact of this transaction is a significant decrease of the net SCR through lower disability risk. This decrease is offset by the impact from a lower LAC DT following the decrease in the worst case tax factor ("WCTF") and the impact from the change in the corporate tax rate (from 21.7% to 25%).

In the following table a reconciliation between the shareholder's equity under IFRS equity and the own funds under Solvency II is presented.

	31-12-2020*	31-12-2019
Shareholders' Equity (IFRS)	382	383
Revaluations	27	41
Available own funds	409	424

*The available own funds for 2020 is an estimate, is not final until filed with the regulator and has been subjected to supervisory review.

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

- Items that are not recognized under Solvency II. For Aegon Schadeverzekering only the deferred acquisition costs, which are included in the technical provision, fall into this category; other examples of this category (Goodwill and other intangible assets) are not applicable to Aegon Schadeverzekering;
- Items that have a different valuation treatment between IFRS-EU and Solvency II. Solvency II is a market consistent framework hence all assets and liabilities are to be presented at fair value while IFRS-EU also includes other valuation treatments in addition to fair value. The most relevant examples of this category include Loans and Mortgages, Reinsurance Recoverables, Deferred tax assets balances and Technical provisions.

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

With the introduction of Solvency II for EEA countries, Aegon Schadeverzekering 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.

As at December 31, 2020, the factor of LAC DT is set at 50%, which is a decrease compared to the 75% in 2019, to account for economic (low interest rates, drags) uncertainty and lower new business expectations. 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 Solvency II regulation consultation paper of EIOPA.

During 2020, Aegon Schadeverzekering continued to comply with the minimum regulatory solvency requirements, driven by the fact that Aegon Schadeverzekering’s internal target capital levels are well above 100% SCR levels.

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

The ability of Aegon Schadeverzekering to pay dividends to Aegon Nederland is also 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 Aegon Schadeverzekering, 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 Schadeverzekering N.V.’s internal target capitalization ranges.

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 Schadeverzekering is 145%.

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

4.5. Product information

Aegon Schadeverzekering offers products that can be split in two segments. These are described in the next sections.

4.5.1. Non-life accident and health protection insurance

Aegon Schadeverzekering offers disability and sick leave products to employers that cover sick leave payments for employees not covered by social security and for which the employer bears the risk. In addition, for some forms of disability, employers can choose to use the social security system with related premiums or opt out and seek private insurance. Private insurance may lead to lower premiums and Aegon Schadeverzekering offers solutions for this. For individuals Aegon Schadeverzekering offers a disability product mainly targeted at the growing self-employed market.

4.5.2. Non-life Property and Casualty (P&C)

Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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.

5. Cash and cash equivalents

	2020	2019
Cash on hand and balances with banks	25.780	4.780
Short term bank deposits	45.000	20.000
Money market investments	115.132	155.187
At December 31	**185.912**	**179.967**

The cash of Aegon Schadeverzekering is managed on an overall Aegon level and can therefore fluctuate on a year by year basis. The carrying amounts disclosed reasonably approximate the fair values at year-end. These cash items are not subject to restrictions.

6. Investments

Investments for general account comprise financial assets, excluding derivatives. For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 25.3 'Summary of financial assets and financial liabilities at fair value through profit or loss' for more details.

	Note	31-12-2020	31-12-2019
Available-for-sale financial assets (AFS)	6.1	511.886	480.971
Loans (amortized cost)	6.1	465.458	489.328
Financial assets at fair value through profit or loss (FVTPL)	6.1	291.453	263.726
Total financial assets, excluding derivatives		**1.268.797**	**1.234.024**
Total investments for general account		**1.268.797**	**1.234.024**

6.1. Financial assets, excluding derivatives

2020	AFS	Loans	FVTPL	Total	Fair value
Shares	3.295	-	248.262	251.558	251.558
Debt securities	508.590	-	43.190	551.780	551.780
Mortgage loans	-	346.282	-	346.282	384.456
Private loans	-	118.916	-	118.916	124.043
Other	-	261	-	261	261
At December 31	**511.886**	**465.458**	**291.453**	**1.268.797**	**1.312.098**

2019	AFS	Loans	FVTPL	Total	Fair value
Shares	3.063	-	248.766	251.829	251.829
Debt securities	477.908	-	14.959	492.867	492.867
Mortgage loans	-	380.620	-	380.620	423.022
Private loans	-	108.422	-	108.422	112.536
Other	-	285	-	285	285
At December 31	**480.971**	**489.328**	**263.726**	**1.234.024**	**1.280.539**

	2020	2019
Current	312.837	316.982
Non-current	955.959	917.042
At December 31	**1.268.797**	**1.234.024**

Reference is made to note 25 'Fair value of assets and liabilities' for information on fair value measurement. Other loans comprise deposits with insurance companies with respect to reinsurance agreements. These are not freely available.

7. Derivatives

	Derivative asset		Derivative liability	
	2020	2019	2020	2019
Derivatives not designated in a hedge	31.307	14.187	48.318	37.532
At December 31	**31.307**	**14.187**	**48.318**	**37.532**

	2020	2019
Current	2.527	267
Non-current	-19.538	-23.612
Total net derivatives at December 31	**-17.011**	**-23.345**

For a summary of all financial assets and financial liabilities at fair value through profit or loss see note 25.3 'Summary of financial assets and financial liabilities at fair value through profit or loss'.

Aegon Schadeverzekering uses derivative instruments as a part of its asset liability management strategy: the risk management of all assets and liabilities. They may relate to an existing asset or liability or a future reinvestment risk. Derivatives are entered into for the purpose of economic hedges. In all cases, they are in accordance with internal risk guidelines and are closely monitored for continuing compliance with these guidelines.

Aegon Schadeverzekering's fair value hedges consisted of interest rate swaps that were used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. In 2017 Aegon Schadeverzekering changed its risk management policy and decided to take on more interest rate risk, in order to economically offset the interest rate risk on the insurance liabilities. This has resulted in a de-designation of all fair value hedge accounting applied to these mortgage portfolios as of that date. The cumulative base adjustment of EUR 11.4 million (EUR 12.6 million at year-end 2019) is amortized over the weighted average duration of the mortgage portfolios to which hedge-accounting was applied at the date of de-designation. The remaining average duration of these mortgage portfolio ranges is 9 years (2019: 10 years).

8. Loans and group loans

	2020	2019
Loan Aegon Levensverzekering N.V.	-	30.000
Loan Aegon Derivatives N.V.	20.332	24.588
At December 31	**20.332**	**54.588**
Current	20.332	54.588
Total	**20.332**	**54.588**

The loan to Aegon Levensverzekering related to an overnight deposit, where Aegon Schadeverzekering placed excess funds with Aegon Levensverzekering, and earned the average daily return that Aegon Levensverzekering makes on its total short term funds in the market. The intercompany short-term deposit was a collateral balance at standard EONIA rates. This loan was redeemed in 2020.

The loan with Aegon Derivatives relates to cash collateral received under derivatives transactions. Aegon Derivatives settles this collateral with external parties on behalf of Aegon Schadeverzekering. The derivative transactions are for ordinary operations. The interest rate swaps are used to mitigate interest rate risk. The collateral is the consequence of movements in market values on derivatives and is settled daily. ESTR[5] 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. No securities or guarantees have been agreed for these loans and no collateral is posted for these loans.

9. Reinsurance assets

	2020	2019
Non-life insurance	22.283	21.818
At December 31	**22.283**	**21.818**
Current	5.949	4.370
Non-current	16.333	17.448
	22.283	**21.818**

Amounts due from reinsurers in respect of claims already paid by Aegon Schadeverzekering on contracts that are reinsured are included in note 10 'Other assets and receivables'.

<u>Movements during the year in reinsurance assets</u>

	2020	2019
At January 1	21.818	14.833
Incurred related to current year	5.311	6.941
Incurred related to prior year	8.245	44
Release for claims settled current year	-7.999	-
Release for claims settled prior years	-5.092	-
At December 31	**22.283**	**21.818**

10. Other assets and receivables

	2020	2019
Investment debtors	28	280
Receivables from policyholders	512	451
Income tax receivable	3.538	-
Accrued interest	7.449	7.504
Prepaid expenses	-	940
Other	1.457	1.449
Current	**12.985**	**10.623**
At December 31	**12.985**	**10.623**

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

In the cash flow statement the movement in this account is disclosed in the line items 'Accrued income and prepayments' and 'Tax paid / (received)'.

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

11. Equity

	2020	2019
Share capital	30.858	30.858
Share premium	141.808	141.808
Revaluation reserves	37.826	32.373
Retained earnings	178.139	151.770
Net income / (loss)	-6.601	26.369
At December 31	**382.030**	**383.178**

11.1. Share capital

	2020	2019
Authorized share capital	50.000	50.000
Not issued	19.142	19.142
At December 31	**30.858**	**30.858**

The authorized share capital is EUR 50 million, divided into 50,000 shares of EUR 1,000 nominal value each, of which 30,858 shares have been issued and fully paid. There have been no changes since the previous financial year. In 2020 Aegon Schadeverzekering did not pay dividend to Aegon Nederland (2019: nil).

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

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

11.2. Share premium

	2020	2019
At January 1	141.808	116.808
Capital contributions	-	25.000
At December 31	**141.808**	**141.808**

In 2019 Aegon Schadeverzekering received a capital contribution of EUR 25 million from Aegon Nederland.

11.3. Revaluation reserves

	2020	2019
At January 1	32.373	19.247
Gross revaluation	8.895	17.906
Net (gains) / losses transferred to income statement	-42	-868
Tax effect	-3.401	-3.913
At December 31	**37.826**	**32.373**

There are restrictions on the distribution to shareholders of the revaluation reserve relating to financial instruments that are not actively traded or quoted. The balance of the revaluation reserve related to investments that are not actively traded or quoted amounts to EUR 1.6 million (2019: EUR 1.3 million).

12. Insurance contracts

	2020	2019
Non-life insurance		
- Unearned premiums and unexpired risks	50.249	56.429
- Outstanding claims	651.721	623.577
- Incurred but not reported claims	373.828	320.528
Total insurance contracts at December 31	**1.075.798**	**1.000.534**

	2020	2019
Accident and health insurance	961.476	885.820
Property and casualty	114.322	114.714
Total	**1.075.798**	**1.000.534**

The increase of the insurance contracts is driven by several developments in the 'Accident and health insurance' portfolio, of which the main ones are described here:

- The decrease in interest rates during 2020 increased the technical provisions with EUR 26 million;
- The AOV model changes during 2020 (change in the index of the cash flow model and adjustment in administration of claims decreased the technical reserves with EUR 16 million;
- Model changes and growth in the PVI portfolio increased the technical provisions with EUR 14 million;
- Higher claims relating to WIA and 'Zorgverzekeringswet' premiums increased the claims provisions with EUR 15 million;
- The increase of the claims provisions for the WIA portfolio with EUR 12 million as a result of the annual parameter updates as disclosed in note 3.1 'Changes in estimates';
- The increase in the average amount insured resulted in a higher IBNR provision of EUR 21 million.

Movements during the year:	2020	2019
At January 1	1.000.534	996.011
Gross premiums - existing and new business	332.880	316.872
Changes in unearned premiums	-339.061	-322.402
Changes in incurred but not reported claims	52.290	-31.920
Unwind of discount / interest credited	8.173	9.105
Incurred related to current year	161.880	174.334
Incurred related to prior years	60.095	63.483
Release for claims settled current year	-81.402	-102.911
Release for claims settled prior years	-119.590	-102.039
At December 31	**1.075.798**	**1.000.534**

Run off result	2020	2019
Accident and health insurance	20.294	28.277
Property and casualty	-3.138	10.551
	17.156	**38.828**

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

	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**

13. Borrowings and group borrowings

	2020	2019
Loan Aegon N.V.	2.640	-
At December 31	**2.640**	**-**
Current	2.640	-
Total	**2.640**	**-**

The loan with Aegon N.V. relates to collateral paid under FX derivatives transactions. Aegon N.V. settles this collateral with external parties on behalf of Aegon Schadeverzekering. The derivative transactions are for ordinary operations. The FX forward contracts are used to hedge currency exposure. No securities or guarantees have been agreed and no collateral is posted for this loan.

14. Deferred tax liabilities

	2020	2019
Deferred tax assets	472	682
Deferred tax liabilities	9.208	5.369
Net deferred tax liability / (asset) at December 31	**8.736**	**4.687**

Movement in deferred tax

2020	Financial assets	Acquisition expenses	Total
At January 1	5.369	-682	4.687
Charged to income statement	438	210	648
Charged to equity	3.401	-	3.401
At December 31	**9.208**	**-472**	**8.736**

2019	Financial assets	Acquisition expenses	Total
At January 1	4.094	-	4.094
Charged to income statement	-2.637	-682	-3.319
Charged to equity	3.913	-	3.913
At December 31	**5.369**	**-682**	**4.687**

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.

15. Other liabilities and accruals

	2020	2019
Payables due to policyholders	3.613	4.196
Payables out of reinsurance	1.573	11.981
Investment creditors	-	2
Income tax payable	-	12.442
Social security and taxes payable	4.239	4.031
Current account with group companies	9.220	50.522
Accrued interest	2.337	2.421
Other creditors	3.112	3.681
At December 31	**24.093**	**89.277**
Current	24.093	89.277
Total	**24.093**	**89.277**

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

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

16. Premium income and premiums paid to reinsurers

	2020		2019	
	Gross	Reinsurance	Gross	Reinsurance
Non-life	375.289	28.151	357.728	19.393
Total	**375.289**	**28.151**	**357.728**	**19.393**

Premiums split by branch

	2020	2019
Accidents and illness	245.199	227.887
Motor vehicles	16.978	16.841
Motor vehicles civil liability	22.767	23.101
Maritime liability	76	78
Fire	31.888	31.217
Property - other damages	30.181	30.543
General liability	12.937	12.923
Legal aid	12.694	12.797
Relief operations	2.568	2.341
Total	**375.289**	**357.728**

All premium income (including reinsurance) recognized relates to insurance contracts entered into from the Netherlands. The premiums with respect to 'Accidents and illness' increased in 2020 due to higher sales on products such as sick leave and WIA Excedent. The increase in premium to reinsurers is largely explained by the reinsurance agreement with ARAG, which started in July 2020 for the legal aid portfolio as well as the increased disability portfolio.

17. Investment income

	2020	2019
Investment income related to general account	16.895	16.852
Total	**16.895**	**16.852**

Investment income consists of:

	2020	2019
Interest income out of:		
- Debt securities	5.645	5.125
- Loans	14.763	15.737
- Other investments	-3.512	-4.010
Total	**16.895**	**16.852**

Interest income accrued on impaired financial assets	-	20
Interest income on financial assets not carried at FVTPL	19.099	20.522

The interest income from 'Other investments' mainly refers to interest from derivatives and short-term bank deposits and money market investments.

Investment income from financial assets held for general account:

	2020	2019
Available-for-sale	4.611	5.036
Loans	14.763	15.737
Fair value through profit or loss	1.033	89
Derivatives	-3.237	-3.759
Other	-275	-251
Total	**16.895**	**16.852**

18. Income from reinsurance ceded

This item relates mainly to the reinsured claims with respect to the disability agreement with Munich Re and the legal aid reinsurance agreement with ARAG.

19. Results from financial transactions

	2020	2019
Net fair value change general account financial investments FVTPL, other than derivatives	478	-348
Realized gains / (losses) on financial investments	42	868
Net fair value change of derivatives	6.605	-7.723
Net foreign currency gains / (losses)	-4.419	-445
Total	**2.706**	**-7.648**

The net foreign currency losses relate to the FVTPL investments Aegon Schadeverzekering has in an Emerging Market Debt fund; these investments are nominated in US dollar. The US dollar currency risk has been hedged with FX derivatives.

The difference of EUR 111 thousand 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
Debt securities and money market investments (AFS)	42	868
Total	**42**	**868**

Net fair value change of derivatives comprise:

	2020	2019
Net fair value change economic hedges - no hedge accounting applied	7.828	-6.500
Amortization of the base-adjustment	-1.223	-1.223
Total	**6.605**	**-7.723**

20. Policyholder claims and benefits

	2020	2019
Claims and benefits paid to policyholders	200.993	204.950
Change in valuation of liabilities for insurance contracts	75.264	4.522
Total	**276.257**	**209.472**

The change in valuation of liabilities for insurance contracts is significantly higher than in 2019. Refer to note 3.1 'Changes in estimates' and note 12 'Insurance contracts' for more information on this increase.

21. Commissions and expenses

	2020	2019
Commissions	42.409	41.501
Employee expenses	21.836	17.383
Administration expenses	58.595	58.056
Total	**122.840**	**116.940**

The increase of this account is largely explained by higher recharged staff expenses to Aegon Schadeverzekering by Aegon Nederland.

Employee expenses

	2020	2019
Salaries	13.162	10.675
Post-employment benefit costs	2.180	1.558
Social security charges	1.445	1.453
Other personnel costs	5.049	3.697
Total	**21.836**	**17.383**

Employees

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

Administration expenses
Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. This allocation is examined each year. The administration expenses do not include depreciation expenses.

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

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

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

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

Aegon Nederland allocates expenses to subsidiaries according to the extent to which the expenses incurred can be related to the activities of the subsidiary. With respect to the total remuneration of the Board of Directors of Aegon Nederland 13% (2019: 13%) was allocated to the income statement of Aegon Schadeverzekering.

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
Aegon Schadeverzekering has a Supervisory Board which is equal to the Supervisory Board of parent company Aegon Nederland. Members and former members of the Supervisory Board are regarded as key management personnel. The remuneration for current and former supervisory board members charged to the company in the financial year pursuant to Section 383:1 of Book 2 of the Dutch Civil Code was EUR 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. The members of the Supervisory Board of Aegon Schadeverzekering do not receive additional remuneration for this task.

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

21.1. Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Schadeverzekering's independent public auditor during 2020 and audited these financial statements. The fees for services rendered to Aegon Schadeverzekering 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 financial statements of Aegon Schadeverzekering;
- Audit of the regulatory reports (Wft staten) of Aegon Schadeverzekering as required by the Act on the financial supervision ('Wet op het financieel toezicht')
- Audit of the total premiums (Premie-opgaaf) of Aegon Schadeverzekering.

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 Schadeverzekering's financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review.

Audit-related assignments

- Audit of the 'Waarborgfonds BE/NL';
- Assurance assignments other than assignments to audit or review historical financial information;
- Audit of internal control procedures.

22. Impairment charges / (reversals)

	2020	2019
Financial assets AFS	-	75
Loans	-22	-10
Net impairment charges / (reversals)	**-22**	**65**

23. Interest charges and related fees

	2020	2019
Short-term liabilities and deposits	1.104	776
Total	**1.104**	**776**
Interest charges accrued on financial assets and liabilities not carried at FVTPL	1.104	776

24. Income tax

	2020	2019
Current tax		
- current year	-3.432	12.442
Deferred tax		
- origination / (reversal) of temporary differences	1.059	-3.573
- changes in tax rates / bases	-518	238
Income tax for the period (income) / charge	**-2.890**	**9.106**

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.

Reconciliation between standard and effective corporate income tax:

	2020	2019
Income before tax	-9.491	35.475
Income tax calculated using weighted average applicable statutory rates	-2.373	8.869
Difference due to the effects of:		
- changes in tax rates / bases	-518	238
Income tax for the period (income) / charge	**-2.890**	**9.106**

	2020	2019
Gains / losses on revaluation AFS investments	3.411	4.130
Gains / losses transferred to the income statement on disposal and impairment AFS investments	-10	-217
	3.401	**3.913**
Total income tax related to components of other comprehensive income	**3.401**	**3.913**

25. Fair value of assets and liabilities

The estimated fair values of assets and liabilities of Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (e.g. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect the own assumptions of Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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.

25.1. 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	-	-	3.295	3.295
- Debt securities	275.081	204.355	29.153	508.590
FVTPL investments				
- Shares	-	248.262	-	248.262
- Debt securities	1.092	42.098	-	43.190
- Derivatives	-	31.307	-	31.307
Total assets	**276.173**	**526.023**	**32.449**	**834.645**
Liabilities carried at fair value				
- Derivatives	-	48.318	-	48.318
Total liabilities	**-**	**48.318**	**-**	**48.318**

2019	Level I	Level II	Level III	Total
Assets carried at fair value				
AFS investments				
- Shares	-	-	3.063	3.063
- Debt securities	236.379	212.866	28.663	477.908
FVTPL investments				
- Shares	-	248.766	-	248.766
- Debt securities	1.334	13.626	-	14.959
- Derivatives	-	14.187	-	14.187
Total assets	**237.713**	**489.445**	**31.726**	**758.883**
Liabilities carried at fair value				
- Derivatives	-	37.532	-	37.532
Total liabilities	**-**	**37.532**	**-**	**37.532**

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	3.063	-	232	-	-	-	3.295	-
- Debt securities	28.663	399	92	-	-	-	29.153	399
Total assets	**31.726**	**399**	**324**	**-**	**-**	**-**	**32.449**	**399**

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	2.907	-75	231	-	-	-	3.063	-75
- Debt securities	26.869	391	1.403	-	-	-	28.663	391
Total assets	**29.776**	**316**	**1.634**	**-**	**-**	**-**	**31.726**	**316**

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

Significant transfers between Levels I/II/III

During 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	3.295	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	29.153	Broker quote	n.a.	n.a.	n.a.
Total assets at fair value	**32.449**				

* Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Schadeverzekering and are not reasonably available. Refer to the section Fair value measurement in this note for a detailed description of Aegon Schadeverzekering'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	3.063	Broker quote	n.a.	n.a.	n.a.
Debt securities - ABS	28.663	Broker quote	n.a.	n.a.	n.a.
Total assets at fair value	**31.726**				

* Not applicable (n.a.) has been included when the unobservable inputs are not developed by Aegon Schadeverzekering and are not reasonably available. Refer to the section Fair value measurement in this note for a detailed description of Aegon Schadeverzekering's methods of determining fair value and valuation techniques.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As Aegon Schadeverzekering does not have level III assets or liabilities with unobservable input for which quantitative information is developed by Aegon Schadeverzekering when measuring fair value (e.g. uses prices from prior transactions or third-party pricing information without adjustment). Therefore also no impact analysis has been made on the fair value measurements of changes in unobservable input.

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

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

<u>Instruments not included in the table</u>
Certain financial assets and liabilities that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include:

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

Furthermore, 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.

2020	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	346.282	384.456	-	-	384.456
Private loans	118.916	124.043	-	-	124.043
Other	261	261	-	261	-

2019	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	380.620	423.022	-	-	423.022
Private loans	108.422	112.536	-	-	112.536
Other	285	285	-	285	-

25.2. Fair value measurement

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

25.2.1. Shares

When available, Aegon Schadeverzekering 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.

25.2.2. Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon Schadeverzekering uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon Schadeverzekering’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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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 un-priced securities. Additionally Aegon Schadeverzekering 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 Schadeverzekering of the risk associated with each security. However, Aegon Schadeverzekering does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon Schadeverzekering's view of the risks associated with each security.

Aegon Schadeverzekering'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 Schadeverzekering'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 Schadeverzekering'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 Schadeverzekering uses quoted market prices in active markets to determine the fair value of its sovereign debt investments. When Aegon Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering 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.

25.2.3. Mortgage loans and private loans

For private loans, fixed interest mortgage loans and other loans originated by Aegon Schadeverzekering, 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.

25.2.4. Derivatives

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

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

Aegon Schadeverzekering normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[6] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Schadeverzekering 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 Schadeverzekering's valuation of its euro-denominated derivatives positions in the Netherlands is based on the Overnight Index Swap curve.

25.2.5. 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.

[6] International Swaps and Derivatives Associations

25.3. 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	-	302.885	-	276.381
Derivatives with positive values	31.307	-	14.187	-
Total financial assets at FVTPL	**31.307**	**302.885**	**14.187**	**276.381**

	2020		2019	
	Trading	Designated	Trading	Designated
Derivatives with negative values	48.318	-	37.532	-
Total financial liabilities at FVTPL	**48.318**	**-**	**37.532**	**-**

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	7.828	-745	-6.500	-1.571

Investments for general account
Aegon Schadeverzekering has investments in investment funds. These have been designated at fair value through profit or loss.

Derivatives
With the exception of derivatives designated as a hedging instrument, all derivatives 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. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

26. Commitment and contingencies

26.1. Investments contracted

In the normal course of business, Aegon Schadeverzekering 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. The sale of mortgage loans relates to pre-announced redemptions on mortgage loans.

Contracted sales	2020	2019
Mortgage loans	1.372	490

26.2. Other commitments and contingencies

Guarantees given	2020	2019
Standby letters of credit	1.427	1.475
Other guarantees	12.000	12.000

Aegon Schadeverzekering is part of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V. and consequently pays its share of the reinsurance premium and other expenses. The letters of credit shown above relate to the guarantee issued by Aegon Schadeverzekering for its share in the excess risk of the Nederlandse Herverzekeringmaatschappij voor Terrorismeschade N.V..

26.3. Legal and arbitrary proceedings, regulatory proceedings and actions

Aegon Schadeverzekering is involved in litigation and proceedings in the ordinary course of its business. Aegon Schadeverzekering has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon Schadeverzekering will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability. Management is not aware of any proceedings which may have or have in the recent past had a significant effect on the financial position, profitability, solvency or reputation of the company.

27. Transfers of financial assets

Aegon Schadeverzekering does not have financial assets that have been transferred to another party in such a way that part or all of the transferred assets do not qualify for de-recognition. Aegon Schadeverzekering is not involved in securities lending activities or repurchase agreements. Furthermore Aegon Schadeverzekering does not have continuing involvement for derecognized financial assets that have been transferred in their entirety.

28. 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 Schadeverzekering 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 Schadeverzekering 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 Schadeverzekering to facilitate Aegon Schadeverzekering’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 Schadeverzekering or its counterparty. Transactions requiring Aegon Schadeverzekering 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	31.307	14.187	48.318	37.532
Related amounts not set off				
- Financial instruments	31.307	14.187	31.307	14.187
- Cash collateral pledged (excluding surplus collateral)	-	-	17.011	23.345
Net amount at December 31	**-**	**-**	**-**	**-**

29. Related party transactions

In the normal course of business, Aegon Schadeverzekering 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 recognized on outstanding balances with related parties.

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

Aegon Schadeverzekering participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Schadeverzekering uses to mitigate interest rate risk are concluded via Aegon Derivatives. Refer to note 7 'Derivatives' and note 8 'Loans and group loans' for more information.

Aegon Nederland provides Aegon Schadeverzekering with administrative support and facilities at cost. Total recharged overhead expenses were EUR 75 million (2019: EUR 71 million).

Aegon Schadeverzekering has an uncollateralized current account relationship with Aegon Nederland. This current account position is subject to internally set limits which are monitored; regular realignments occur even if no limit is exceeded. All financial transactions pass through Aegon Nederland and are accounted for in the current account with Aegon Nederland. At the end of the year, Aegon Schadeverzekering had a current account payable with Aegon Nederland, see note 15 'Other liabilities and accruals'.

Aegon Schadeverzekering offers its products to employees of Aegon Nederland. The conditions for these products are the same for key management personnel and other staff.

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 1 million (2019: EUR 1 million)

The premium income from the production of Aegon Cappital related to Aegon Schadeverzekering was EUR 16 million (2019: EUR 13 million). As of January 2020, Aegon Cappital receives a fee from Aegon Schadeverzekering for the administration of the risk insurance contracts. The fee received in 2020 was EUR 0.3 million.

30. Events after the reporting period

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

31. Approval of the financial statements

The financial statements of Aegon Schadeverzekering 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.

32. Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to withdraw the negative result for the financial year of EUR 7 million from the retained earnings. This proposal has 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

Profit shall be appropriated in accordance with Article 23 of the articles of association of Aegon Schadeverzekering N.V., which can be summarized as follows:

1. The Annual General Meeting is authorized to appropriate the profit as determined by adoption of the financial statements and to declare distributions, with due regard for the statutory restrictions.
2. Distributions on shares may only be made up to the amount of the distributable capital and reserves and, in the case of an interim distribution, if this requirement is met as evidenced by an interim statement of net assets pursuant to Section 2:105(4) Dutch Civil Code. The company shall file the statement of net assets at the offices of the trade register within eight days of the day on which the resolution for distribution is announced.
3. The authority of the Annual General Meeting to declare a distribution shall apply to distributions from profits not taken to reserves and to distributions charged to any reserve, and to distributions on the adoption of the financial statements and to interim distributions.
4. A resolution to make a distribution shall not take effect until approved by the board. The board shall refuse to give approval if it knows or reasonably ought to know that following the distribution the company would be unable to continue paying its liabilities when due.

Independent auditor's report

Independent auditor's report

To: the general meeting and the supervisory board of Aegon Schadeverzekering N.V.

Report on the financial statements 2020

Our opinion

In our opinion, the financial statements of Aegon Schadeverzekering 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 and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2020 of Aegon Schadeverzekering N.V., The Hague.

The financial statements comprise:

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

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

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.

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

Independence

We are independent of Aegon Schadeverzekering N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence 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 Schadeverzekering N.V. is a provider of non-life insurance services.

The Company is a wholly owned subsidiary of Aegon Nederland N.V. The accounting process is structured around a centralised finance function in Aegon Nederland N.V. that supports the insurance operations, called reporting units. We consider these reporting units to be components in planning and executing our audit. The Aegon Nederland N.V. finance function maintains all actuarial and tax functions, its own accounting records and controls. In establishing the overall approach to the audit, we determined the type of work that is needed to be performed by our audit team at each of the reporting units. As the audits of Aegon Nederland N.V. and the Company are performed by the same audit team, audit procedures performed at Aegon Nederland N.V. level are utilised in a one-stream approach for the audit of the Company. The audit primarily focussed on the significant activities within Aegon Nederland relevant for the Company, which have been identified, based on type of products, geographical location and industry, being: Head Office, Non-Life, Mortgages, and Asset Management.

We paid specific attention to the areas of focus driven by the operations of the Company and by the impact of the COVID-19 pandemic on the financial statements, as set out below.

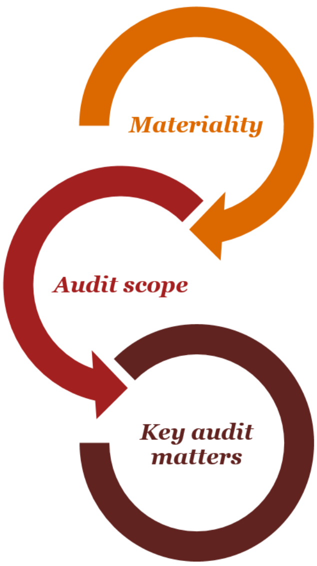
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 3 'Critical accounting estimates and judgment in applying accounting policies', the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement 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 disclosures on the capital position based on Solvency II regulations 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 the Company'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 Company 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 team included the appropriate skills and competences that are needed for the audit of an insurance company. 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 liabilities (actuarial services for liabilities arising from insurance contracts) in our team.

The outline of our audit approach was as follows:



Materiality
- Overall materiality: € 9.5 million

Audit scope
- We performed audit procedures on all significant business operations of the Company.
- We included all material financial statement line-items in the scope of our audit.

Key audit matters
- Valuation of liabilities arising from insurance contracts
- Valuation of certain Level 3 investments
- Disclosures on the capital position based on Solvency II regulations

Materiality

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

Based on our professional 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 materiality	€ 9.5 million (2019: € 8 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 (ultimate) 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 2.5% of equity. This resulted in an overall materiality of € 9.5 million (2019: € 9.5 million). The allocated materiality that was used for group reporting purposes to the auditor of the ultimate parent company (Aegon N.V.) amounted to €9,5 million (2019: €8 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 Company.

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 € 470,000 (2019: € 400,000) as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

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 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 Company'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 insurance operating license of the Company, 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 Company 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 2.11 'Insurance contracts', Note 3 'Critical accounting estimates and judgment in applying accounting policies' and Note 12 'Insurance contracts'.* The Company has insurance contracts stated at € 1,075 million (2019: € 1,000 million) at December 31, 2020 representing 93% (2019: 88%) of the Company'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 policyholder liabilities, 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.
To assess the adequacy of the liabilities for insurance contracts, the Company 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 Company uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate/incomplete data, design or application of the models.	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. 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.

Key audit matter	*Our audit work and observations*
Models considered more complex include those in respect of liabilities for claims subject to periodic payment in particularly disability and other forms of income protection contracts. The main assumptions used in measuring the liabilities for insurance contracts relate to morbidity, mortality, future expenses, lapses, claim statistics and investment return. Furthermore, the valuation of certain non-life insurance contracts is affected by government regulations in particular regarding the (timeliness of) disability assessment that leads to claims for the Company from disability and workers compensation insurance. Significant judgment is applied in setting these assumptions. In addition, the Company 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 12 'Insurance contracts' and Note 4.2.9 'Underwriting risk', a change in assumptions (especially morbidity) could have a significant impact on net income and shareholders' equity.	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 Company'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 Company'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 financial statements are adequate and in accordance with EU-IFRS. We found the disclosures to be appropriate in this context.
Valuation of certain Level 3 investments. *Refer to Note 2.5 'Investments', Note 3 'Critical accounting estimates and judgment in applying accounting policies', Note 6 'Investments' and Note 25 'Fair value of assets and liabilities'.*	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.

Key audit matter	Our audit work and observations
The Company has investments of € 1,268 million (2019: € 1,234 million), of which € 32.4 million are categorised as Level 3 investments in the valuation hierarchy. The Company also has assets 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 and private loans of € 508 million; 2019: € 535 million, 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 the positions that are carried at amortised cost on the balance sheet, but for which the 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.	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 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 also evaluated whether the disclosures in the financial statements are adequate and in accordance with EU-IFRS. We found the disclosures to be appropriate in this context.
Disclosures on the capital position based on Solvency II regulations *Refer to Note 4.4 'Capital management and solvency'.* The Company, as a regulated insurer, determines the required capital to cover its risk exposure based on the Solvency II requirements. The capital position is determined based upon the available capital ('Own Funds') of € 409 million (2019: € 424 million) and the required capital of € 232 million (2019: € 259 million). This results in a solvency ratio of 176% as per December 31, 2020 (2019: 163%). The risk of misstatement is higher due to estimates and complex valuation models. The fact that the solvency	Available capital We tested the economic balance sheet, which was drawn up for the determination of the available capital, against the valuation and classification criteria of the Solvency II regulations. We tested the estimates to determine the cash flows (parameters and assumptions with respect to morbidity, mortality, future expenses, lapses, claim statistics and investment return), based on historical developments within the insurance portfolio and market developments. We challenged the assumptions made by management for feasibility and impact by testing them against information available to the Company and relevant market developments. We determined that management's estimates are

Key audit matter	*Our audit work and observations*
ratio constitutes a key indicator and the Solvency II information is relevant within the Company's capital and dividend policy means that we consider the audit of this information to be important. Available capital The determination of the available capital position is based on the economic balance sheet drawn up by the Company. Several important estimates and valuation models are applied that use inputs not observable in the market. The main estimates are: • The cash flows used to determine the economic value of the technical provisions and reinsurance assets (parameters and assumptions with respect to morbidity, mortality, future expenses, lapses, claim statistics and investment return; and • Projected fiscal results and an analysis of future realisations. Required capital The standard formula is used to determine the capital requirements. An important estimate for determining required capital is the loss-absorbing capacity of deferred taxes in case of a shock in the solvency capital (LAC-DT). The main elements are disclosed under available capital above.	substantiated and we therefore, consider the estimates to be reasonable. Required capital We tested the capital requirements for each risk component as to whether these were calculated in accordance with the criteria of the Solvency II regulations. For this purpose, we tested the internal control procedures concerning the data used, the model governance and the calculation process. We also tested the data and calculations applied. We tested the loss absorbing capacity of deferred taxes that is taken into account in determining the required capital. On the basis of this test, we evaluated the projections of future (fiscal) results which included the evaluation of the reliability of the forecasted results. These forecasted results, such as the release of the risk margin and the excess return on general account assets, have been tested to determine the reasonableness. We determined that the valuation differences between the fiscal and the Solvency II valuation were taken into account in the correct year of the projection. Furthermore, we focussed on the accuracy of the movements in the expected results due to measures to recover that capital position, the correct timing of the inclusion of losses from the shock in fiscal results, the correct application of corporate tax rates and the correct application of regulations with respect to the offsetting of losses. We determined that management's estimates are adequately substantiated by audit evidence. Other We have taken note of the correspondence with DNB and the findings reported therein with respect to the calculations of the capital position. We discussed the revised Q&A from DNB on LAC-DT with management to understand and verify how the Company has reflected these changes in the LAC-DT model and how it was substantiated by including various scenarios based on the good practices included in the Q&A.
	Disclosures

Key audit matter	Our audit work and observations
	We also evaluated whether the disclosures relating to the available capital and the disclosures of the required capital are adequate. We also verified the compliance with the applicable financial reporting framework. We found the disclosures to be appropriate in this context.

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 Schadeverzekering 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.

No prohibited non-audit services

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

Services rendered

The services, in addition to the audit, that we have provided to the Company, for the period to which our statutory audit relates, are disclosed in Note 21.1. 'Remuneration Independent Auditor' to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the board of directors and the supervisory board for the financial statements

The board of directors is responsible for:

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

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

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

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our 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 Schadeverzekering 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 Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Concluding on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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.