Annual report 2019

Aegon Hypotheken B.V.

Aegon Hypotheken B.V.
Aegonplein 50
2591 TV The Hague

Contents

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Report of the Board of Directors

1. General information

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

Aegon Hypotheken does not have its own Supervisory Board. The Supervisory Board is established on the level of its parent company Aegon Nederland. Whereas in this Report the Supervisory Board is stated, the Supervisory Board of Aegon Nederland is meant.

1.1. Strategy, purpose and mission statement (Future Fit)

The parent company of Aegon Hypotheken, Aegon Nederland N.V., has formulated its purposes, strategy and objectives and these also apply to Aegon Hypotheken.

The goal of the Future Fit Strategy of Aegon Nederland is to become the "customer-driven company of the future". The refocused strategy centers around Aegon Nederland's mission to "enable people to make conscious decisions about their financial future" ("wij stellen mensen in staat zelf, bewust keuzes te maken voor hun financiële toekomst"). This means doing the right things in the best possible way in the interests of our customers.

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

In order to achieve this acceleration, changes to our organization and governance structure were required; further transforming the organization from being product-driven towards being customer-driven. By doing so, the organizational structure is now more aligned to our business strategy and consequently, a more efficient and effective execution of our strategy can be expected. In February 2019 Aegon Nederland introduced three strategic categories; **Drive for Growth, Scale-up for the Future, and Manage for Value**. Aegon Nederland has made progress in the execution of Aegon's strategy by driving efficiencies and allocating capital to those activities with the best growth prospects.

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

Agile Way of Working

In 2019 Aegon Nederland continued its journey towards company-wide agility. Aegon has been in active use of the agile working method since 2012 and in the past years has made several steps towards team maturity using the SAFE methodology. In 2019 we embarked on a program to improve our corporate agility to drive productivity, time to market, quality and customer and employee satisfaction. As a result Aegon Nederland created a new organization structure & governance based on end-to-end business responsibilities organized in value streams and dismantled its retail and wholesale management structure. The processes are designed to find the optimal balance between 'client value, time criticality and risk reduction' and align 'strategy with execution'. This ensures a way of working in which Quality by Design is embedded.

1.2. Composition of the Board of Directors and gender diversity

As of July 1, 2019, Mrs. I.M.A. de Swart resigned from the Board of Directors to pursue her career outside of Aegon. After almost 12 years with Aegon Nederland, Chief Financial Officer (CFO) Mr. R. Zomer has left Aegon per April 1, 2020. He will move on to new opportunities and will make room for others in a smaller Management Team of Aegon Nederland. He will be succeeded by Mr. B. Magid, who will stay responsible for the CIO portfolio in his new job as CFO. CTO Mrs. A Schlichting will combine her current role with that of Transformation Officer. She will also become part of Aegon Nederland's Statutory Board of Directors as per April 1, 2020. Finally, Mr. W. Hekstra was appointed as COO for Aegon Nederland. He already was responsible for Aegon Wholesale. When Mrs. I.M.A. de Swart left, he temporarily took on her responsibility for Aegon Retail too. Now it has been decided that this temporary solution will be permanent.

The composition of the Board of Directors as of April 1, 2020 will consist out of the following five members, i.e. Mr. M.J. Edixhoven (chair), Mrs. A Schlichting, Mr. B. Magid, Mr. W.A. Hekstra and Mr. W. Horstmann.

Enhancing gender diversity in the Board of Directors and Supervisory Board is an important objective for Aegon Nederland. Selection and appointment is based on expertise, skills and relevant experience. The Supervisory Board also takes gender diversity into consideration in light of its goal to have a balanced composition in the Board of Directors. The Supervisory Board is aware that the current composition of the Board of Directors does not meet the 'balanced composition' requirement under Dutch law (at least 30% of the seats should be filled by women and at least 30% by men). When identifying candidates for open positions, the Board of Directors actively searches for suitable female candidates with the help of external recruitment firms. While this has had a positive effect, the requirement has not yet been met.

Aegon Nederland's HR department is currently working on creating a new role; consultant Inclusion & Diversity. Next to focusing on actively searching for suitable female candidates, this role will aim to hire more people with an migrant background and people with a disadvantage in the labor market. For the latest, Aegon Nederland already hired an employee who will create jobs for this target group.

1.3. Employees

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

1.4. Key elements of policy

During 2019, the Board of Directors discussed several important subjects and developments, regularly in the presence of the Solvency II key function holders and other senior management. The financial results, including Capitalization considerations and ALM (Asset Liability Management): strategic asset allocation were part of discussion of the Board of Directors. Also topics such as the further execution (and monitoring) of key strategic change initiatives, managing the business portfolio within the 3 strategic buckets (i.e Manage for Value, Drive for growth and scale-up for the future), Agile transition and transformation of the Aegon Nederland organization, cost and capital management, financial and non-financial controls, people management, responsible business, M&A opportunities and impactful laws and regulations.

1.5. Remuneration policy

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

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

Equal pay for men and women

In 2018, Aegon and trade unions reached a new collective labour agreement for the insurers' employees. It includes explicit agreements about equal pay for men and women performing the same function. According to union FNV, this is the first collective bargaining agreement in the Netherlands to address this issue explicitly.
As part of the collective bargaining agreement, Aegon investigated the current remuneration of its male and female employees with the conclusion that on average there are no differences in the salary of men and women performing the same function.

Remuneration and scope
Remuneration may include both financial and non-financial compensation provided by the company either directly or indirectly. Financial compensations 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 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 on 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 2019. The Supervisory Board approved the 2019 variable remuneration 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 years that vested in 2019. This remuneration was within Aegon Nederland’s remuneration policy. No retention payments were made. There were no welcome and exit arrangements granted in 2019 outside of the policy. The total income of the Board of Directors in 2019 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 2019 was EUR 1.3 million. No individuals received a total annual compensation equal to or higher than EUR 1 million. This malus clause on variable remuneration granted conditionally to MRT was not applied nor was there a claw back of variable remuneration.

1.6. Regulation and supervision

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

DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions and the conduct of business on financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector. With regard to banks, DNB undertakes its supervisory role, in particular with respect to prudential supervision, together with the European Central Bank (‘ECB’). Although Aegon Nederland is under supervision of the DNB, Aegon Hypotheken does not fall under specific supervision from the DNB.

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

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

1.7. Business developments

Mortgage production in the Netherlands in 2019 seems to have stabilized in 2019. Lower supply, higher house prices and stricter lending conditions may constrain further growth of the mortgage market. Based on the same criteria recent years of mortgage registrations by Kadaster, the mortgage production slightly decreased 1% to EUR 104 billion (2018: EUR 106 billion). The low mortgage rates, increased consumer confidence and high rentals on the housing market are important factors that generate persistent demand. The total number of mortgages originated decreased by 6% to 326,000. This decline in number of mortgages originated is offset by an increase in the average mortgage amount to EUR 320,000 (2018: EUR 306,000).

Because of low interest rates the largest growth in mortgage production in 2019 was realized from refinancing. As higher house prices and shortage of supply of suitable houses hinder potential entrants, the group of starters in the market shows decline. The aging population will cause major challenges regarding sustainability, appropriate housing and living at home in combination with care. Financial advisers are increasingly confronted with questions about surplus value, home modification, donations and inheritance law.

In 2019 house prices have risen at an annual rate of 7%. In the development of housing prices there are clear differences between different housing types and regions with popular urban areas showing stronger increases than rural areas. However, the increase in house prices is more wide-spread over the country. In certain, urban areas there is shortage in cheaper and middle class residences.

There are no significant changes in the top 10 lenders in the Dutch mortgage market. The top 3 remains Rabobank, ABN Amro and ING. Aegon now has fifth position after Volksbank; the Aegon market share in 2019 decreased to 5.3% (7.6%).

Aegon won the "Gouden Spreekbuis" awards for the Best Mortgage Lender and Best Mortgage Broker, recognized for its exceptional service toward both consumers and intermediaries.

On July 9, 2019, Aegon Hypotheken closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). ‘SAECURE 18 NHG’ consists of EUR 550 million of class A notes with an expected weighted average life of 4.76 years and a coupon of 3 month Euribor plus 40bps.

Loan to Value (LTV) approach customers

With implementation of its new policy on LTV class migration, Aegon Hypotheken has taken an important step on the field of client interest. As of July 1, 2019 the LTV class of redeeming mortgages is automatically adjusted for the majority of the portfolio when (extra) redemption and/or increase of the market value of the property places the mortgage in a lower LTV class. The interest the customer pays is adjusted accordingly. With respect to mortgages with an investment component the LTV migration will take place in 2020.

GDPR

In 2019, seven data breaches occurred within Aegon Nederland. Follow up has been given including notification to the Dutch Data Protection Authority (Autoriteit Persoonsgegevens). These incidents have been reported and discussed in the Monthly Risk Event Committee and Quarterly Risk and Audit Committees (local units and MT-NL).

A report was issued by the Internal audit department in September 2019 on the status of GDPR implementation. The outcome of this report was unsatisfactory because the approach used thus far allows for insufficient management oversight and consequently, a lack of demonstrable control over GDPR compliance and a lack of a structured approach. Aegon Nederland has plans in place to address these findings with a high priority, including the recruitment of new staff and a manager with specialist knowledge and is currently executing on those plans.

In addition, non-compliance matters, mainly relating to the mortgages business, occurred within Aegon Nederland in 2019. Management has taken appropriate action to remediate the matters noted and to improve processes, procedures and controls where needed.

IT

Aegon Nederland pays a lot of attention to digitalizing and innovation. An important innovation, which was rewarded with a Celent Model Insurer Award in 2019, is the decision to decrease the abundance of internal rules for IT-solutions to a set of eight clear principles. The IT Architecture team introduced the so-called ‘non-negotiables’, a minimal set with guidelines on which cannot be negotiated when buying or building software.

Aegon Nederland also further improved the central Data Lake to decouple front and back end. This increases the speed of development and innovations. The different customer journey initiatives made possible this way increased the NPS. For SII and IFRS17 a closed model run environment was built. In 2019 the agile way of working was further implemented in all value streams. Staff functions will follow in 2020.

1.8. Risk Management

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

1.9. Brexit

On January 31, 2020, the United Kingdom (UK) left the European Union (EU). The UK has until the end of 2020 to negotiate a trade deal with the EU and prevent a Hard Brexit. A Hard Brexit will have consequences for the derivatives contracts Aegon Nederland holds with UK counterparties as they may lose their eligibility under European regulation. In the last few years, Aegon Nederland has prepared for this possibility and has worked towards replacing its UK counterparties. For bilateral derivatives with a UK counterparty, contracts have been set up to replace the counterparty by a continental (non UK) counterparty of the same mother company. For centrally cleared derivatives, Aegon Nederland has gradually moved from LCH in London to Eurex in Frankfurt. Currently, around 60 percent of all swap interest rate sensitivity of the Aegon Nederland insurance entities is in Frankfurt. The situation is carefully monitored by the Risk & Capital Committee. Based on new information about Brexit, the future eligibility of LCH and the liquidity at the different venues, the decision will be made whether the exposure at Eurex is expanded further.

1.10. IBOR

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

Aegon Nederland recognizes that IBOR transitions potentially have implications for all reporting units, including 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.

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

1.11. Asset and Liability Management and Financial Instruments

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

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

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

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

1.12. Corona outbreak

At this time, the full impact from the coronavirus outbreak is not yet clear. Aegon Nederland cannot quantify the magnitude and duration of the coronavirus at this time given the fluidity of the situation. Aegon Nederland is, however, seeing that businesses among which possibly some of our clients and partners are impacted, both in the Netherlands and across the world. As a consequence, Aegon Nederland is seeing disruption to the global financial market as both stock markets and interest rates have declined significantly. Aegon Nederland has taken the necessary measures aiming to provide for the safety and the wellbeing of our colleagues and customers in the Netherlands and is closely monitoring payment behavior of our clients in these times of financial stress.

Like other companies operating in the Netherlands, Aegon Nederland is exposed to challenges resulting from the coronavirus pandemic. Aegon Nederland is taking measures aimed at safeguarding the interest of all our stakeholders in this difficult time. Aegon Nederland continues to monitor and assess its business operations daily. Refer to 5.3 ‘Corona virus disease outbreak’ for more information.

2. Financial information

2.1. Developments during the year

Mortgage production and portfolio
The mortgage production of Aegon Hypotheken decreased compared to 2018, because of lower mortgage production for spread and fee based business. The mortgage production for fee business was EUR 4.3 billion in 2019 (2018: EUR 4.7 billion). The mortgage production for Aegon Nederland group's own account was lower with EUR 3.0 billion (2018: EUR 4.3 billion) of which EUR 220 million (2018: EUR 923 million) for the account of Aegon Hypotheken.

The mortgage production for fee based business is concentrated in the Dutch Mortgage Fund (DMF) and other investment vehicles. DMF has specifically been created, in cooperation with Aegon Asset Management, to provide third party funded mortgages. DMF offers institutional investors the ability to invest in Dutch residential mortgages granted by Aegon Hypotheken for the account and risk of DMF. The fund pays Aegon Hypotheken a fee for originating and managing the mortgages. DMF has proven to be a successful proposition in market. The fee based business complements the spread business in which the mortgages are held by either Aegon Hypotheken or other entities within the Aegon Nederland group for own account and risk. In 2018, Aegon Hypotheken and Aegon Asset Management implemented a new contract with external fee partners. This development in combination with demand from existing investors and partners increased supply and funding possibilities.

The mortgage portfolios held for own account and for third parties show higher repayments and prepayments due to low interest rates and increased customer awareness on the risks involved in high debt levels. This has driven an increase in interest resets and therefore leads to pressure on interest margins going forward. The increased level of repayments, supported by (fiscal) regulations, furthermore results in shorter duration of the mortgage portfolio.

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

Laws and regulations
Aegon Mortgages implemented its new policy with regard to LTV class migration following AFM guidance on customer interest. Starting July 1, 2019, the interest rate of a redeeming mortgage will be automatically adjusted on the moment that redemption leads to a lower LTV class. Adjustment will be based on the historic interest rate difference instead of the current interest rate difference.

Following new legislation on Interest Averaging, Aegon Hypotheken B.V. decided to stop offering this option to clients.

In accordance with the Action Plan of the Verbond van Verzekeraars Aegon Hypotheken B.V. is actively activating clients with an Interest Only (IO) mortgage. These clients are informed of the risks that come with their IO mortgage product and are informed about the options to address these risks.

Financial results
The result in 2019 was a profit of EUR 26.8 million before tax, which is EUR 7.3 million higher compared to 2018. This increase is mainly the result of higher interest income of EUR 11 million and higher fee income of EUR 10 million, partly offset by higher commissions and expenses of EUR 17 million.

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

Solvency and liquidity
Shareholders' equity at December 31, 2019 amounts to EUR 191.3 million compared to EUR 174.4 million at year-end 2018. The increase is caused by the net profit over 2019 of EUR 20.4 million partly offset by the capital upstream to Aegon Nederland of EUR 3.5 million.

Aegon Hypotheken's solvency and liquidity position have been assessed as part of Aegon Nederland's solvency and liquidity management and is considered as adequate during and as per year-end 2019.

Cash flows and funding

To meet its liquidity and solvency requirements more effective the funding of Aegon Hypotheken is a combination of long term secured and unsecured loans from Aegon Levensverzekering and a committed revolving credit facility from Aegon N.V. The current funding structure leads to a sustainable long term business model for Aegon Hypotheken with more robust funding sources. During 2018 and 2019, following the growth in the fee business, and the capital upstreams to Aegon Nederland, more funding and more flexible funding was required. Aegon Hypotheken therefore agreed to extend the possibilities under the current warehouse funding by increasing the frequency in which it is allowed to draw from or to redeem the facility as well as allowing pre-funding of mortgages.

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

Further funding is available from the undrawn part of the current facilities as per December 31, 2019, which are EUR 1.2 billion (2018: EUR 1.6 billion) from external (warehouse) facilities and EUR 0.3 billion (2018: EUR 0.2 billion) from the liquidity line of Aegon N.V. These facilities provide room for short-term liquidity needs.

3. Corporate Governance

Aegon Hypotheken as part of 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 ensure a common approach for how we carry out our business in Aegon Nederland's markets.

Aegon Nederland also endorses the values from the (Bank and Insurance) oath/promise. The oath/promise is a so-called "moral ethics statement" that is effective in the Netherlands since 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 the Dutch Central Bank ('De Nederlandsche Bank or 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 present an overview of the application of governance principles. This is done on behalf of the insurance companies Aegon Levensverzekering, Aegon Schadeverzekering and Aegon Spaarkas. 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 the membership. The profile is tailored to Aegon Nederland's nature, size and complexity and also incorporates the competences in DNB's Suitability Matrix for Supervisory Boards.

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

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

Experience has shown that all members of the Supervisory Board are sufficiently available and accessible to perform their duties properly. The importance of this principle is underlined in the profile, the Rules of the Supervisory Board and the Aegon Nederland Governance Guide. Compliance is also checked in the regular self-evaluations. The members of the Supervisory Board receive suitable compensation that is independent of Aegon Nederland's financial results. Compensation is set by the General Meeting of Shareholders.

Aegon Nederland has a permanent education program for members of the Supervisory Board and the Board of Directors. 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 2019 the evaluation of its own functioning was performed. The results were satisfactory and were discussed by the Supervisory Board and with the Board of Directors and where necessary, actions were taken.

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

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

The CRO is the director of the Risk Management & Compliance department, which is organized as a second line of defense and is the risk management function holder (RFH). 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 Capital Management report to the CFO. The CFO has no individual commercial responsibility and operates independently of other commercial areas.

Duties and working methods
In its decision making, Aegon Nederland's Board of Directors carefully considers the interests of all parties concerned, taking into account its vision, strategy and applicable codes of conduct such as the Aegon Nederland Code of Conduct. Putting customers and their interests first is at the heart of our vision, strategy and day-to-day activities. It is an integral part of our thinking and runs through all operations at every level of the company.

This means that employees with customer contacts are closely involved with the theme. There are special training programs on the theme and it is part of our recruitment policy.

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

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 apply 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 to all employees. In addition all employees are annually required to confirm compliance to the code of conduct.

4. Corporate social responsibility

Responsible and sustainable business is very important to Aegon Nederland and its subsidiaries. It is its mission to enable customers to make well-informed choices for a healthy financial future. Every day Aegon Nederland helps people to live a solid financial life, today and later on. Aegon Nederland also knows that not everyone is able to make conscious choices. In society, people need to take care of themselves more and more and unfortunately there are many people who fail to succeed. For that reason Aegon Nederland takes a position in society for people with debts by helping them on their way to opportunities.

Environment
Aegon Nederland believes it is very important that the objectives of the Paris Climate Agreement are actually achieved. Both from a social point of view and for our customers so that they can grow old in a pleasant environment. That is why we do not want to run climate risks with the pension money that we invest for them. But also by looking at offices, mobility, cooperation with other companies, and by creating awareness amongst employees, suppliers and other stakeholders. Aegon Nederland has the ambition to halve the ecological footprint of internal business operations per employee in 2030 compared to 2018. The Aegon Nederland activities are aligned with the department of Strategy and Sustainability of Aegon N.V. in order to maintain focus and share best practices. In determining the strategy for Aegon Nederland in the period 2019-2022, responsible business has been identified as one of the five transition KPI's on the management dashboard of Aegon Nederland.

Our investments are an important way of realizing our environmental objectives. That is why our responsible investment strategies, policies, instruments (screening, engagement, voting, exclusion) and the actual investments are also focused on realizing change. At Aegon Nederland there is a focus on investments in sustainable real estate and the energy transition.

Next to that Aegon decided to no longer invest in in:

- Companies that derive 30% or more of their revenues from thermal coal exploration, mining or refining. The threshold will be decreased to reach effectively zero (0-5%) by 2030.
- Companies that generate electricity with installed coal-fired generation capacity of 30% or more. The threshold will be decreased to reach effectively zero (0-5%) by 2030.
- Companies that derive 30% or more of their total oil equivalent production from oil sands. The threshold will be decreased to reach effectively zero (0-5%) by 2030.
- Companies that are pipeline operators and which are significantly involved in oil sands transportation

These investments no longer fit our low-carbon strategy.

Furthermore, Aegon Nederland and Aegon Asset Management Nederland have supported several resolutions in order to request for more ambitious climate targets at the General Shareholders meetings of Chevron, BP, Exxon and Equinor in 2019. These oil and gas companies should make changes in their strategies to support the needed climate transition to a low-carbon economy.

Social
The main program aimed at society is Van Schulden naar Kansen (From Debts to Opportunities). The aim is to reduce the number of households living in poverty due to debts. People are being helped with learning skills, knowledge and behavior on their financial situation. To accomplish this, Aegon Nederland supported local organizations financially and with the help of Aegon employees acting as a volunteer.

For the eighth consecutive year, employees helped people who live nearby the headoffice in The Hague with 1-on-1 conversations during the 'Pensioen3daagse' to improve understanding of what they would need for their retirement. During the 'Week van het Geld' (Money Week), employees gave lessons at primary schools to raise children's financial awareness on insurance. During the so called 'Volunteering Friday' Aegon Nederland promotes the opportunity to do volunteering work as laid out in the collective labour agreement. The activities are all organized in nearby municipalities.

There has been ongoing attention to the sponsorship of the Alzheimercenter Amsterdam. Since 2002 Aegon Nederland has been the main sponsor. This sponsorship is aligned with Aegon Nederland's vision: enable people to make self-conscious decisions on their healthy financial future. Around World Alzheimer's Day 2019, Aegon signed a contract with Jetske van der Schaar. A young woman, carrier of the hereditary Alzheimer gene, who, financially supported by Aegon Nederland, writes a book about her search for a medicine for this disease. In 2019 Aegon also became the main sponsor of the Special Olympics Nationale Spelen (SONS) 2020 in The Hague for people with a mental disability.

Based on new legislation, small pensions (less than 2 euros annually future pension) ended in 2019. The value of these pensions (EUR 17.871) has been donated to the Alzheimercenter.

On July 10, 2019, Minister of State Barbara Visser (Defense) signed the Social Impact Bond ‘Joining Forces’. The signing of this Social Impact bond is the start of an innovative program to re-integrate service unsuitable soldiers. Aegon invests in the Fund that finances this re-integration which is supported by a.o. Robidus.

Economic
Aegon Nederland’s mission also entails the economic perspective: enable customers to make conscious decisions about their financial future. In 2019 Aegon Nederland continued with the campaign ‘Goed met geld’. Dutch people are becoming more and more responsible for their own financial future. But arranging money matters is not everyone's hobby. Many people find it complicated or boring, and prefer to postpone it. That is why Aegon Nederland is helping them via this campaign. Videos, but also blogs, checklists and the ‘Goed met Geld’ test have been developed. In this way Aegon Nederland makes people aware of their own responsibility and encourages them to take action. Especially financially dependent women are particularly vulnerable in the case of the death of a partner or a divorce. Together with organizations and experts from across the country, Aegon Nederland is seeking to make it easier for all members of society to manage their finances.

Amvest
Together with partner Amvest, Aegon Nederland continues its efforts to be a responsible investor through further optimizing its real estate investment portfolio. Aegon’s key focus is to contribute by investing in sustainable and affordable homes for a broad target group, including people with key jobs, younger people and vulnerable elderly.

On behalf of Aegon Nederland, Amvest has acquired the ‘Startmotor’ in Rotterdam consisting of 581 regulated rental dwellings under construction. The ‘Startmotor’ is a new initiative which offers safe housing to younger people that start their ‘residence career’ and is more than just an apartment. The ‘Startmotor’ functions as a community concept where young people can live together, share common facilities and can be supported by additional services when needed.

Furthermore, Amvest acquired 816 rental dwellings under construction in SPOT Amsterdam. SPOT is part of a larger transformation project to change the former Amstel III business park into a ‘mixed-use neighborhood’ and will offer comfortable homes with the amenities of a small town to approximately 1,200 to 1,600 residents. The majority of the rental dwellings in SPOT will be affordable homes through a mix of regulated and mid-priced homes. An assigned number of homes will be exclusively available to people with certain key jobs to society, like school teachers, police offers and nurses. With the acquisition of SPOT, Aegon Nederland contributes to keep a city like Amsterdam affordable to live in for a broad group of people.

Another essential part of Aegon’s responsible investment strategy is to make the existing real estate investment portfolio more sustainable. Aegon is making good progress with its real estate investment sustainability program. As part of the program the roll-out of solar panels for Aegon’s existing single family homes that started in 2018 continues. Aegon also continues to improve the energy labels of existing homes through renovation projects whereby technical, energetic and functional measures are taken to enhance quality of living and reduce energy costs and CO_2 emissions. Aegon’s ongoing sustainability efforts are rewarded by an improved score in the Global Real Estate Sustainability Benchmark (GRESB). In 2019 the direct real estate investment portfolio score improved further to 4 stars (2018: 3 stars). Aegon Nederland is also a large investor in the Amvest Residential Core Fund and Amvest Living and Care Fund. Both funds achieve the maximum GRESB score of 5 stars in 2019.

5. Outlook

5.1. Developments

The outlook for the Dutch residential mortgage market is, despite economic and political uncertainties, positive based on continued low interest rates, further economic growth and increasing consumer confidence. Nevertheless, across The Netherlands and specifically in larger cities in and surrounding the Randstad, a shortage of supply of houses has become visible. This results in further increase of house prices and subsequently potential buyers withdrawing from the market which may lead to pressure on the amount of mortgage transactions in the course of 2020. Based on its current position and initiatives taken, Aegon Hypotheken is confident to maintain a position of a large player on the market and to benefit from positive developments.

5.2. Research and development

Aegon Hypotheken continuously evaluates its client service and is involved in industry initiatives to enhance client orientation and optimizing the distribution channel. Aegon Hypotheken's activities are mainly directed at digitalizing its client service. New initiatives, including with start-up ventures will be explored to broaden the distribution basis and enhance customer approach.

5.3. Coronavirus disease outbreak

Since January 2020, the Coronavirus disease (COVID-19) outbreak is causing significant disruption to society, impacting Aegon Hypotheken, its suppliers and customers worldwide. Financial markets have been severely impacted by significant decreases in interest rates, equity markets and commodity prices. Governments and central banks worldwide are responding to this crisis with aid packages and further quantitative easing. At the date of this report the depth and length of this crisis is unknown.

Aegon Hypotheken is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on Aegon Hypotheken. The most significant risks Aegon Hypotheken faces are related to interest rate risk (many of the mortgages Aegon Hypotheken grants are fixed rate while the financing contracts are based on floating rates), credit risk (main credit risk concentration is related to the mortgage loans) and liquidity risk (most assets and liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement). The notes to Aegon Hypotheken's financial statements include elaborate descriptions and related financial market sensitivities. At the date of this report it is too early to measure the impact of the COVID-19 outbreak.

However, regarding the interest rate risk Aegon Hypotheken has a hedging strategy in place and the capital position is sufficient to anticipate a negative interest movement (also refer to paragraph 4.2.5 in the financial statements). The COVID-19 outbreak is also likely to have an impact on the credit risk as the likelihood of customers with a mortgage loan getting into default increases. Although the impairment provision recognized in the outbreak of the last economic crisis was significantly higher than the Expected Credit Loss in the current financial statement, at the date of this report Aegon Hypotheken does not expect to have these impairment levels again due to the COVID-19 outbreak. This is among others due to the nature of the mortgage portfolio (average loan to value of 64.7%, 49.1% NHG guaranteed mortgages, new mortgage loans have a redemption element and therefore value at risk is declining over time) and at the date of this report the COVID-19 outbreak is not likely to have a significant impact on the value of the properties (mainly residential properties). The liquidity risk is not expected to be significantly impacted by COVID-19, since most of the funding is backed by long-term loans and committed loan facilities (also refer to note 11.1 in the consolidated financial statements) that cannot be immediately withdrawn from by external funding parties. In addition, there are enough facilities in place to refinance the short-term funding of EUR 1.8 billion.

Because of the far-reaching measures governments around the world are taking to control the impact of this pandemic we expect the sale of new business to be impacted by these measures. At the date of this report it is too early to tell what the impact of these measures will be on our new mortgage production. However, at the date of this report we did not anticipate a decline in the production of new mortgage loans nor in the funding from external parties.

Aegon Hypotheken has invoked its business continuity plans to help ensure the safety and well-being of its staff, as well as its capability to support its customers and maintain its business operations. Although, as described above, the uncertainties associated with the COVID-19 outbreak are high and it is not currently possible to estimate future effects, we believe that based on current insights, no material uncertainty relating to going concern exist and therefore the going concern assumption used in preparing the financial statements is appropriate.

5.4. Events after balance sheet date and expectations

Except for the Coronavirus disease outbreak (refer to note 5.3 ‘Coronavirus disease outbreak’ in this Report), there are no other post reporting date events and expectations that have not already been taken into account in the directors’ report or financial statements.

The Board of Directors have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Board will authorize the Chairman to sign the annual accounts on their behalf. The Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Board Members are not present as covered by article 2:210 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Board of Directors,

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

Consolidated financial statements 2019 of Aegon Hypotheken B.V.

Consolidated statement of financial position

Amounts in EUR thousand	Note	31-12-2019	31-12-2018
Assets			
Cash and cash equivalents	5	120.565	127.630
Loans	6	3.194.579	3.270.750
Group loans	7	459.183	653.583
Derivatives	8	299.602	223.242
Deferred tax assets	12	6.514	3.981
Other assets and receivables	9	912.104	702.724
Total assets		**4.992.547**	**4.981.909**
Equity and liabilities			
Equity	10	191.331	174.384
Equity		**191.331**	**174.384**
Borrowings and group borrowings	11	3.980.797	4.256.666
Derivatives	8	614.526	444.135
Other liabilities and accruals	13	205.893	106.724
Total liabilities		**4.801.216**	**4.807.525**
Total equity and liabilities		**4.992.547**	**4.981.909**

Consolidated income statement

(for the year ended December 31, 2019)

Amounts in EUR thousand	Note	2019	2018
Income			
Interest income calculated using the effective interest method	14	96.491	93.204
Interest expense calculated using the effective interest method	19	-13.087	-20.755
Other interest expense	19	-52.487	-52.636
Net interest income		**30.916**	**19.813**
Fee and commission income	15	89.174	78.826
Results from financial transactions	16	16.681	13.066
Impairment losses / (reversals)	18	4	-87
Total income		**136.767**	**111.792**
Expenses			
Commissions and expenses	17	109.943	92.319
Total operating expenses		**109.943**	**92.319**
Income / (loss) before tax		**26.824**	**19.473**
Income tax	20	-6.377	-7.173
Net income / (loss)		**20.447**	**12.300**
Net income / (loss) attributable to the parent company		**20.447**	**12.300**

Consolidated statement of comprehensive income

(for the year ended December 31, 2019)

Amounts in EUR thousand	2019	2018
Net income	**20.447**	**12.300**
Total comprehensive income	**20.447**	**12.300**
Total comprehensive income attributable to the parent company	**20.447**	**12.300**

Consolidated statement of changes in equity

(for the year ended December 31, 2019)

Amounts in EUR thousand

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

2018	Share capital	Share premium	Retained earnings	Total
At January 1	18	20.000	180.367	**200.385**
Effect of change in accounting policy	-	-	199	**199**
Restated balance as at January 1	**18**	**20.000**	**180.566**	**200.584**
Net income / (loss) recognized in the income statement	-	-	12.300	**12.300**
Other comprehensive income / (loss)	-	-	-	**-**
Total comprehensive income / (loss)	**-**	**-**	**12.300**	**12.300**
Dividends paid on common shares	-	-	-38.500	**-38.500**
At December 31	**18**	**20.000**	**154.366**	**174.384**

Aegon Hypotheken has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in prior year changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The total remeasurement benefit, net of tax, of EUR 0,2 million was recognized in opening reserves at 1 January 2018, in the retained earnings.

Consolidated cash flow statement

(for the year ended December 31, 2019)

Amounts in EUR thousand	Note	2019	2018
Income / (loss) before tax		**26.824**	**19.473**
Results from financial transactions	16	-16.321	-13.066
Amortization and depreciation	17	25.486	32.935
Impairment losses / (reversals)	18	4	-87
Adjustments of non-cash items		**9.169**	**19.782**
Accrued expenses and other liabilities	13	391.606	24.851
Accrued income and prepayments	7	-500.700	212.300
Changes in accruals		**-109.094**	**237.151**
Additions to mortgage loans	6	-172.348	-881.830
Purchase of derivatives	8	-	-93
Redemptions of mortgage loans	6	317.283	454.341
Disposal of derivatives	8	-	-
Net change in cash collateral		-127.364	-96.759
Cash flow movements on operating items not reflected in income		**17.571**	**-524.341**
Tax (paid) / received	20	-10.034	-12.197
Net cash flows from operating activities		**-65.564**	**-260.132**
Purchase of mortgage loans		-4.000	-
Disposal of mortgage loans		18.000	-
Net cash flows from investing activities		**14.000**	**-**
Repayment of borrowings and group loans	11	935.234	914.939
Proceeds from borrowings and group loans	11	-887.236	-600.167
Dividends paid		-3.500	-38.500
Net cash flows from financing activities		**44.498**	**276.271**
Net increase / (decrease) in cash and cash equivalents		**-7.066**	**16.139**
Cash and cash equivalents at the beginning of the year	5	127.630	111.491
Cash and cash equivalents at the end of the year		**120.565**	**127.630**

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

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

	2019	2018
Interest received (excluding derivatives)	92.766	91.389
Interest paid (excluding derivatives)	12.378	20.755
Interest derivatives received / (paid)	-54.029	-50.013
Dividend received	-	-

<u>Reconciliation of liabilities arising from financing activities</u>

Aegon Hypotheken paid dividend to Aegon Nederland in 2019. For both 2018 and 2019 the other financing activities relate to the changes in long term borrowings and issued and repaid loans to group companies.

Notes to the consolidated financial statements

1. General information

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

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

2. Significant accounting policies

2.1. Basis of presentation

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

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2019 is provided below, in note 2.1.1 'Adoption of new IFRS accounting standards and amendments effective in 2019'.

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

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

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

Company financial statements

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

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

Going concern

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

2.1.1. Adoption of new IFRS-EU accounting standards and amendments effective in 2019

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 2019, the following standards and amendments to existing standards issued by the IASB became mandatory or were early adopted, but are not currently relevant or do not significantly impact the financial position or financial statements:

Accounting standard / amendment / interpretation	IASB effective date	Endorsed by EU	Impact for the entity
IFRS 16 Leases	January 1, 2019	Yes	Not applicalbe
IFRIC 23 Uncertainty over Tax Treatments	January 1, 2019	Yes	Low
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	January 1, 2019	Yes	Not applicable
Annual improvements 2015-2017	January 1, 2019	Yes	Low
Amendment to IAS 19 Plan amendment, curtailment or settlement	January 1, 2019	Yes	Not applicable
Early adopted Interest Rate Benchmark Reform	January 1, 2020	Yes	See below for comments

Except for Interest Rate Benchmark Reform (early adopted by Aegon Hypotheken) the new standards and amendments to existing standards are currently not relevant or do not significantly impact the financial position or financial statements.

<u>Interest rate benchmark reform</u>
Aegon Hypotheken has elected to early adopt the ‘Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform’ issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed on January 1, 2019 or were designated thereafter.

The amendments provide temporary relief from applying specific hedge accounting requirements, thereby ensuring that uncertainty on the outcome of the Interest Rate Benchmark Reform (IBOR) reforms does not result in early termination of hedge accounting, notably because the retrospective effectiveness may fall outside of the required range due to the IBOR reform. Please refer to note 8 ‘Derivatives’ for the required disclosures of the uncertainty arising from IBOR reform for hedging relationships for which the Group applied the reliefs. The IASB is currently working on additional amendments to IAS 39 and IFRS 9, which will include the accounting for contract modifications following IBOR reform. Aegon Hypotheken continues to follow the status of the IASB’s IBOR reform project, and will assess the impact when further information becomes available.

2.1.2. Changes in presentation

There have been no changes in presentation.

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

The following standards and amendments to existing standards, published prior to January 1, 2020, were not early adopted by Aegon Hypotheken, but will be applied in future years:

Accounting standard / amendment / interpretation	IASB effective date	Endorsed by EU	Early adopted by the entity	Impact for the entity
IFRS 17 Insurance contracts	January 1, 2021	Not yet	No	Not applicable
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Yes	No	Low
Amendment to IFRS 3 Business Combinations	January 1, 2020	Not yet	No	Low
Amendments to IAS 1 and IAS 8: Definition of Material	January 1, 2020	Yes	No	Low

2.2. Basis of consolidation

2.2.1. Subsidiaries

The consolidated financial statements include the financial statements of Aegon Hypotheken and its subsidiaries. Subsidiaries (including structured entities) are entities over which Aegon Hypotheken has control. Aegon Hypotheken controls an entity when Aegon Hypotheken is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assessment of control is based on the substance of the relationship between Aegon Hypotheken and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

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

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

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

2.2.2. Structured entities

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

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

2.3. Current versus non-current

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

2.4. Foreign exchange translation

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

2.5. Offsetting of assets and liabilities

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

2.6. Financial assets and liabilities, excluding derivatives

2.6.1. Initial recognition and measurement

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

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

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2.6.2. Financial assets

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

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

Amortised cost and effective interest rate

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

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

Interest income

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

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

The classification requirements for debt are described below:

Debt instruments

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

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

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

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

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

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

Impairment of financial assets

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

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

Modification of loans

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

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

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

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

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

Derecognition other than on a modification

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

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

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

2.6.3. Financial liabilities

Classification and subsequent measurement

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

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

Derecognition

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

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

2.7. Derivatives

2.7.1. Definition

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

2.7.2. Measurement

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

2.7.3. Hedge accounting

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

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

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

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

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

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

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

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

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

2.8. Other assets and receivables

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

2.9. Cash and cash equivalents

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

2.10. Equity

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

2.11. Borrowings and group loans

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

2.12. Assets and liabilities relating to employee benefits

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

2.13. Tax assets and liabilities

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

2.13.1. Current tax assets and liabilities

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

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

2.13.2. Deferred tax assets and liabilities

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

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

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

2.14. Other liabilities and accruals

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

2.15. Contingent assets and liabilities

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

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

2.16. Interest income

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

2.17. Fee and commission income

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

2.18. Results from financial transactions

Results from financial transactions include:

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

2.19. Commission and expenses

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

Commission, staff and administration expenses incurred are allocated to the period to which they relate.

2.20. Interest charges and related fees

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

2.21. Corporate income tax

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

2.22. Events after the reporting period

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

3. Critical accounting estimates and judgment in applying accounting policies

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

Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, corporate income taxes (refer to paragraph 2.13 & 2.21) and the potential effects of resolving litigation matters (refer to paragraph 2.15).

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

3.1. Changes in estimates

Several model and assumption updates have been made with respect to mortgages. As Aegon Hypotheken announced in December 2018, Loan-to-Value migration is applied automatically and clients received discount from June 1, 2019 onwards on their mortgage rates. In addition, there were two model changes: the change in methodology applied to retail rates (decrease in market value of EUR 14.9 million) and the spread curve used for discounting (decrease in market value of EUR 1.9 million). As the mortgage loans of Aegon Hypotheken are valued at amortized cost, this only impacts the fair value disclosed. There is no impact on reported equity or earnings.

3.2. Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

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

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

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

3.3. Recognition of deferred tax assets

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

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

3.4. Measurement of the expected credit loss allowance

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

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

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

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

4. Risk management

4.1. Enterprise Risk Management

4.1.1. Introduction

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

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

4.1.2. Risk Management structure and governance

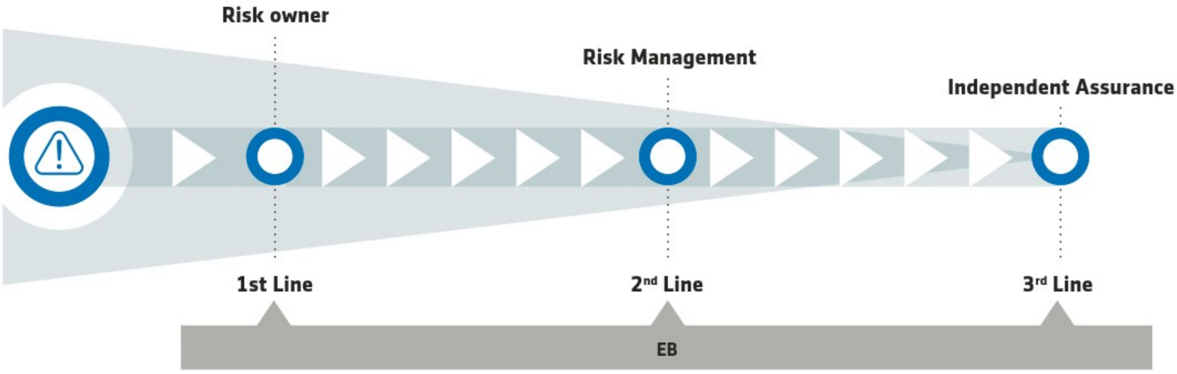
Risk committees

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

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

Three lines of defense model

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



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

Key function holders

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

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

4.1.3. Enterprise risk management process

ERM building blocks

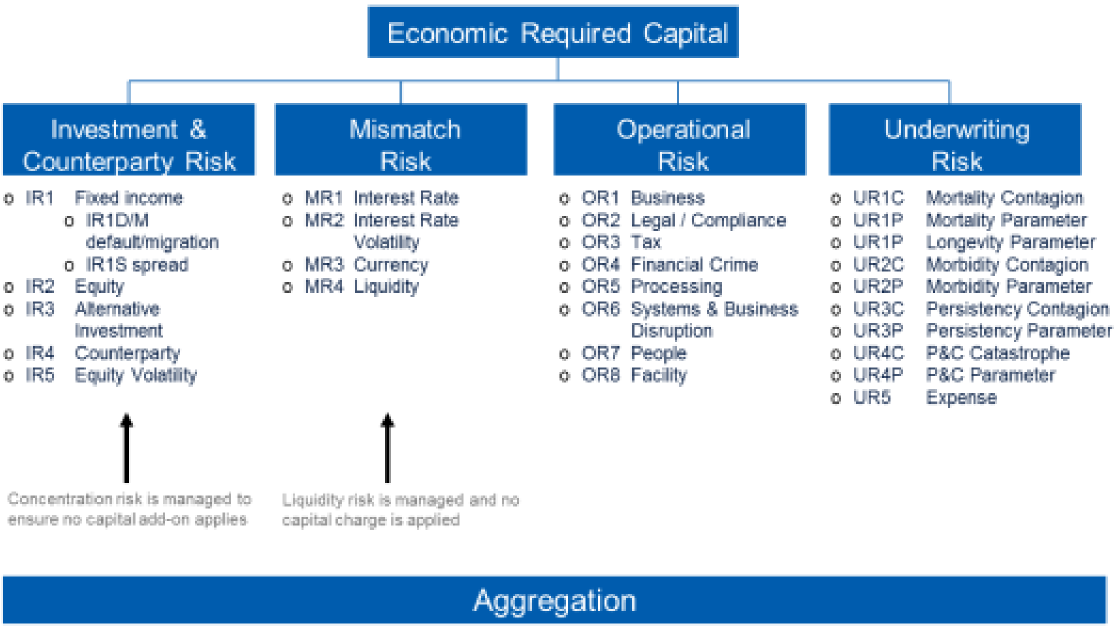
Aegon Nederland's enterprise risk management framework considers risk from various perspectives and can be decomposed into multiple components. However, enterprise risk management is not strictly a serial framework, where one component affects only the next. It is a multidirectional, iterative framework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

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

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

Risk universe

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



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

4.2. Risk management approach

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

Category	Risk description	Measures taken
Regulatory and compliance risks	Aegon Nederland aims to embed compliance with laws, regulations, business principles, rules of conduct, customer agreements and established good business practices in every aspect of the organization. Among the regulatory risks Aegon Nederland considers are also the risk related to the litigation portfolio and product-related issues. Changes in current legislation and regulation of insurance and banking products may affect Aegon Nederland's products and operations. Changes in regulations on pensions and employee benefits, social security, financial services and taxation may adversely affect Aegon Nederland's ability to sell new products or its claims' exposure on existing ones. Additionally, new or amended legislation or regulations may be more restrictive or result in higher costs than lead to higher costs than is currently the case.	Aegon Nederland promotes integrity by establishing and maintaining effective compliance risk management and control systems. Aegon Nederland has a process in place to ensure that it flags and defines the impact of new laws and regulations and implements them in a timely manner. To best safeguard customers' interests, Aegon Nederland does not simply put any proposition on the market. Every new and updated proposition follows a proposition-approval process. In this process, the risks are carefully balanced and tested against the duty of care towards the customer, financial sustainability and suitability with Aegon Nederland's vision, strategy and objective. In addition to the proposition approval process, Aegon Nederland uses a propositions review process for existing propositions. Existing propositions, selected through the use of pre-defined risk indicators, also go through this process to best safeguard customers' interests.
Reporting risk	Aegon N.V. is subjected to Sarbanes Oxley (SOx) law and Solvency II regulation, and as a significant entity also Aegon Nederland is compelled to comply with specific stringent regulation.	Aegon Nederland tests the design, existence and performance 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 independently 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 Model Validation team. In accordance with regular governance, findings from 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 Model Validation. Furthermore, model risk management policy is followed. Underwriting Risk Management and Financial Risk Management review new and material models and assessing model changes in a risk based manner. Finally, regular governance (Assumptions & Methodology Committee, Risk & Capital Committee and Model Change Board) is followed for approval of new models.

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

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

4.2.1. Primary financial risks

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

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

A substantial higher level of prepayments, maturities and subsequent lower margins of new productions may have consequences for future profitability.

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

Aegon Hypotheken manages its liquidity position in ordinary course of business and taking into account extreme events, including significantly reduced liquidity in capital markets. Based on regular assessments made, Aegon Hypotheken liquidity position has been adequate during 2019.

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

4.2.2. Hedging

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

4.2.3. Funding risk

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

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

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

Further funding is available from the undrawn part of the current facilities as per December 31, 2019, which are EUR 1.2 billion (2018: EUR 1.6 billion) from external (warehouse) facilities and EUR 0.3 billion (2018: EUR 0.2 billion) from the liquidity line of Aegon N.V. These facilities provide room for short-term liquidity needs.

4.2.4. IFRS Sensitivities

Results of Aegon Hypotheken's sensitivity analysis are presented in the following paragraphs to show the estimated sensitivity of net income and equity to various scenarios. For each significant market risk, the analysis shows how net income and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. Management action is taken into account to the extent that it is part of Aegon Hypotheken's regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying Aegon Hypotheken's accounting policies[1]. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. Although management's short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analysis provided below.

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

4.2.5. *Interest rate risk*

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

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

	2019	2018	2017	2016	2015
3-month US Libor	1,91%	2,81%	1,69%	1,00%	0,61%
3-month Euribor	-0,38%	-0,31%	-0,33%	-0,32%	-0,13%
10-year US Treasury	1,91%	2,68%	2,41%	2,44%	2,27%
10-year Dutch government	-0,06%	0,38%	0,52%	0,35%	0,79%

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

	2019		2018	
Parallel movement of yield curve	Estimated approximate effect		Estimated approximate effect	
	Net income	Equity	Net income	Equity
Shift up 100 basis points	10.880	10.880	5.934	5.934
Shift down 100 basis points	-14.833	-14.833	-8.648	-8.648

The sensitivity of net income and shareholders' equity for parallel shifts in the yield curves has increased compared to 2018. This impact is the result of interest rate shocks on the linear derivatives portfolio offset by the impact on the mortgages in hedge relation of Aegon Hypotheken. The net derivative position not included in hedge accounting relationship has remained stable compared to 2018.

The decrease compared to 2018 (less offset than in 2018) of the impact on the mortgages in hedge relation is in line with the decreased mortgage portfolio compared to 2018.
Since loans are not, other than derivatives, being revalued under IFRS, there is no interest sensitivity. Note that sensitivities are calculated without taking into account any floors in coupons which apply to part of the financing transactions.

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

4.2.6. Credit rating

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

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

2018	Amortized cost	Fair value	Total 2018
AAA	19.232	-	19.232
AA	43	161.244	161.287
A	-	-	-
BBB	-	-	-
BB	1	-	1
B	-	-	-
CCC or lower	-	-	-
Assets not rated	3.251.474	61.998	3.313.472
Total on balance credit exposure at December 31	**3.270.750**	**223.242**	**3.493.992**
Of which past due and/or impaired assets	18.671	-	18.671

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

4.2.7. Credit risk concentration

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

Credit risk concentration - mortgage loans	2019	2018
Apartment	293.283	325.652
Other commercial	10.922	-
Residential	2.641.304	2.802.733
At December 31	**2.945.509**	**3.128.385**
Of which past due and/or impaired assets	15.175	18.591

The amount disclosed in the table above for the investments at amortized cost is excluding the adjustment relating to the fair value hedge accounting of EUR 232 million (2018: EUR 123 million). Refer to note 6 'Loans' for more information.

Fair value of the mortgage loan portfolio:	2019	2018
Fair value mortgage loans	3.358.057	3.457.691
Loan to value (approximately)	64,7%	67,7%
Part of portfolio government guaranteed	49,1%	46,8%
Delinquencies in portfolio (defined as 60 days in arrears)	0,1%	0,1%
Impairments (reversals) during the year	4	-87

4.2.8. Past due and impaired financial assets

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

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

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

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

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

	2019	2018
Mortgage loans	3.151	5.182
Other	83	80
At December 31	**3.234**	**5.262**
Interest received on impaired financial assets	**12**	**224**

4.2.9. Liquidity risk

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

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

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

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

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

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

- Large change in interest rates (300 bps upward shock and 100 bps downward);
- Large change in credit spreads (150 bps upward);
- Insolvency of a counterparty, credit facility or bank where current accounts are held.

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

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

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

2018	On demand	< 1 year	1 < 5 year	5 < 10 year	Total 2018
Borrowings and group borrowings	-	1.682.205	2.114.461	460.000	4.256.666
Other financial liabilities	10.055	96.669	-	-	106.724
At December 31	**10.055**	**1.778.873**	**2.114.461**	**460.000**	**4.363.390**

Maturity analysis – derivatives (contractual cash flows)

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

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

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

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

2018	< 1 year	1 < 5 year	5 < 10 year	> 10 year	Total
Cash inflows	53.212	189.641	300.527	249.279	792.659
Cash outflows	-104.413	-329.061	-348.219	-256.456	-1.038.149

4.3. Credit risk management

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

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

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

Aegon Hypotheken operates a Credit Name Limit Policy (CNLP) under which limits are placed on the aggregate exposure that it has to any one counterparty. These limits are set by Aegon N.V. and also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon Hypotheken'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 2019 there has been one breach regarding the CNLP, 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). This breach, which was corrected by closing a new CDS, was reported to the local Risk & Capital Committee (RCC) and did not require reporting to the Global RCC. During 2018 there were no breaches regarding the CNLP.

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

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

4.3.1. Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by Aegon Hypotheken.
    - If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 4.3.2. for a description of how Aegon Hypotheken determines when a significant increase in credit risk has occurred.
    - If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.3.3. for a description of how Aegon Hypotheken defines credit-impaired and default.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- Financial instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 4.3.4. for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

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

Change in credit quality since initial recognition

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

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

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

4.3.2. Significant increase in credit risk (SICR)

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

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

Quantitative criteria

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

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

Qualitative criteria

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

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

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

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

In line with regulatory requirements, Aegon Hypotheken has used the low credit risk exemption for private loans in the year ended 31 December 2019. As such, external and internal credit ratings are used respectively for these assets to assess whether a significant increase in credit risk has occurred.

4.3.3. *Definition of default and credit-impaired Assets*

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

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

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

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

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

4.3.4. *Measuring ECL – Inputs, assumptions and estimation techniques*

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

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

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

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

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

Expected credit losses measured on a Stage 3 Lifetime basis are the discounted product of the expected amount of exposure that will default without cure, and the Loss Given No-cure ('LGN'), defined as follows:
- The expected amount that will default without cure is calculated as the current exposure amount times the sum of probabilities over possible future developments that result in default without cure. All possible future developments are enumerated and for each future development a probability is calculated. The possibility that an exposure amount is repaid by means of scheduled payments or unscheduled prepayments is included among all possible future developments. For each possible future development the probability is estimated using statistical modelling techniques.
- The LGN represents the expectation of the extent of the loss on an exposure that defaults without cure. The LGN varies by type and amount of exposure, and type and amount of collateral available, the presence of other credit support, the duration of default, and the macro-economic forecast. The LGN is expressed as a percentage loss per unit of exposure at the time of default. The LGN is calculated for each future quarter.

The LGN is based on factors that impact the recoveries made post-default. These vary by product type:
- For mortgages, this is primarily based on the collateral type and projected value, the estimated recovery rate on the collateral, NHG guaranty eligibility, and savings proceeds when applicable.
- For private loans, LGN is estimated using a statistical modelling technique on historical recovery rate data provided by rating agencies.

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

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

4.3.5. Forward-looking information incorporated in the ECL model

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

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

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

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

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

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

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 are set out below. The scenarios “base”, “upside” and “downside” were used for all portfolios.

		2019	**2020**	**2021**	**2022**	**2023**
Unemployment rate	*Base*	3,7	3,5	3,5	3,5	3,5
	Upside	3,7	3,4	3,4	3,4	3,4
	Downside	3,7	3,9	3,9	3,9	3,9
House Price Index	*Base*	8,2	3,8	3,1	3,1	3,1
	Upside	8,2	6,8	6,1	6,1	6,1
	Downside	8,2	-3,9	-4,6	-4,6	-4,6
Domestic GDP	*Base*	3,6	1,9	1,6	1,6	1,6
	Upside	3,6	3,3	3,0	3,0	3,0
	Downside	3,6	-1,5	-1,8	-1,8	-1,8

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

	Base	**Upside**	**Downside**
At 31 December 2019	50%	25%	25%
At 31 December 2018	50%	25%	25%

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

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

(i) House price index, given the significant impact it has on mortgage collateral valuations; and
(ii) Unemployment rate, given its impact on secured and unsecured borrowers’ ability to meet their contractual repayments.

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

	Stress scenario 2019		**Stress scenario 2018**	
House price index	-10%	+10%	-10%	+10%
	319	-86	239	-64

	Stress scenario 2019		**Stress scenario 2018**	
Unemployment rate	-1%	+1%	-1%	+1%
	-3	4	-14	24

ECL is most sensitive to changes in house price index, as the house price index is a major driver for LGD and LGN.

4.3.6. Write-off policy

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

Aegon Hypotheken may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was EUR 0.1 million (2018: EUR 0.1 million). Aegon Hypotheken still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.3.7. Modification of financial assets

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

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

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

4.3.8. Loss allowance

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

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

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

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

	Mortgage loans 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2018	32	75	111	219
Stage transfers	-4	-36	15	-26
New financial assets originated or purchased	11	1	62	74
Changes in PD/LGD/EAD	-22	4	-67	-85
Changes to model assumptions and methodologies	3	5	11	19
Financial assets derecognised during the period	-4	-13	-21	-38
Write-offs	-	-	-32	-32
Loss allowance as at 31 December 2018	**17**	**37**	**78**	**131**

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

	2019	2018
Mortgage loans	3	-87
Debt securities and private loans	1	-
Other	-	-
Net impairment charge in P&L / (reversals)	**4**	**-87**

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

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

	Mortgage loans 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	2.785.761	53.738	4.888	2.844.387
Stage transfers	-16.457	15.379	1.078	-
New financial assets originated or purchased	773.666	2.899	282	776.847
Financial assets derecognised during the period other than write-offs	-338.188	-6.472	-3.084	-347.745
Write-offs	-4	-	-132	-136
Other movements	-21.960	-	-	-21.960
Gross carrying amount as at 31 December 2018	**3.182.818**	**65.544**	**3.031**	**3.251.394**

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

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

4.3.9. *Credit risk exposure*

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

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

	Mortgage loans 2018			
	ECL staging			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit grade				
Investment grade (NHG guarantees)	1.560.791	19.105	637	1.580.532
Investment grade (non-NHG guarantees)	1.622.044	35.604	350	1.657.998
Standard/Special monitoring		10.872	2.122	12.994
Gross carrying amount	**3.182.835**	**65.581**	**3.109**	**3.251.525**
Loss allowance	17	37	78	131
Carrying amount	**3.182.818**	**65.544**	**3.031**	**3.251.394**

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

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

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

2018	**Maximum exposure to credit risk**			
	Gross exposure	Collateral received		Net exposure
		Collateral	Master netting agreement	
Loans to individuals	80	-		80
- Other	223.242	-	223.242	-
Total	**223.322**	**-**	**223.242**	**80**

4.3.10. Collateral and other enhancements

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

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

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

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

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

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

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

2018 **Credit-impaired assets**	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Loans to individuals: - Mortgage loans	3.109	78	3.031	2.977
Total credit-impaired assets	**3.109**	**78**	**3.031**	**2.977**

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

Mortgage portfolio - LTV distribution	**2019**	**2018**
Lower than 50%	-	139
50 to 60%	-	-
60 - 70%	617	-
70 - 80%	579	453
80 - 90%	955	383
90 -100%	655	674
More than 100%	401	1.381
Total	**3.207**	**3.031**

4.4. Regulation and supervision

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

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

The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to customers. The Dutch supervisory authorities have a number of formal tools to exercise their supervisory tasks. These tools include the authority to request information, if this is necessary for the purpose of prudential supervision; and the power to issue formal instructions to financial institutions, to impose fines, or to publish sanctions.

4.5. Product information

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

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

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

5. Cash and cash equivalents

	2019	2018
Cash on hand and balances with banks	120.565	127.630
At December 31	**120.565**	**127.630**

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

6. Loans

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

2018	Amortized cost	Fair value
Mortgage loans	3.251.394	3.457.691
Private loans	19.276	21.138
Other*	80	80
At December 31	**3.270.750**	**3.478.908**

	2019	2018
Current	324.221	326.859
Non-current	2.870.357	2.943.891
Total financial assets, excluding derivatives	**3.194.579**	**3.270.750**

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

Certain mortgage loans shown within the category loans are designated in portfolio fair value interest rate hedging relationships, and are fair valued with respect to the hedged interest rate. This resulted in a higher carrying value of EUR 232 million as at December 31, 2019 (2018: EUR 123 million higher). Total movement of the mortgage loan portfolio due to hedge accounting was EUR 110 million during 2019 (2018: EUR -/- 11 million). None of the financial assets have been reclassified during the financial year.

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

	2019	2018
At December 31, 2017		2.147
Effect of change in accounting policy		-1.921
At January 1	**139**	**226**
Addition charged to income statement	-33	44
Reversal to income statement	-7	-38
Amounts written off	-	-32
Other movements	-	-61
At December 31	**99**	**139**

7. Group loans

	2019	2018
Loan Aegon Levensverzekering N.V.	-	321.764
Loan Aegon Derivatives N.V.	459.183	331.819
At December 31	**459.183**	**653.583**

current	459.183	653.583
non-current	-	-
Total	**459.183**	**653.583**

The loan to Aegon Levensverzekering related to SAECURE 14, since SAECURE 14 bought mortgage loans from Aegon Levensverzekering. However, under IFRS, these mortgage loans continued to be recognized on the balance sheet of Aegon Levensverzekering (no 'derecognition'). As a consequence, Aegon Hypotheken had a receivable to Aegon Levensverzekering for this amount. In 2019 the mortgages from SAECURE 14 were repurchased at FORD and this loan was repaid.

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

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

8. Derivatives

	Derivative asset		Derivative liability	
	2019	2018	2019	2018
Derivatives not designated in a hedge	290.786	220.405	335.870	252.143
Derivatives designated as fair value hedges	8.816	2.837	278.656	191.993
At December 31	**299.602**	**223.242**	**614.526**	**444.135**

	2019	2018
Current	-754	-416
Non-current	-314.169	-220.477
Total net derivatives at December 31	**-314.923**	**-220.893**

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

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
	2019	2018	2019	2018
Derivatives held as an economic hedge	290.786	220.405	335.870	252.143
At December 31	**290.786**	**220.405**	**335.870**	**252.143**

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

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

Derivatives designated as fair value hedges
Aegon Hypotheken's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result. This offset is only possible when using the EU carve-out on hedge accounting. The table below summarizes the effect of the fair value hedges.

Effect of fair value hedges	2019	2018
Fair value changes mortgage loans recognized in income statement under the EU carve-out	97.839	-458
Offset amount of fair value changes recognized on derivatives used as hedging instrument	-97.993	-2.329
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-154**	**-2.787**
Amortization of the base-adjustment	12.512	11.433
Total accounting hedge result	**12.358**	**8.646**

For the year-ended December 31, 2019, Aegon Hypotheken recognized EUR 110 million of fair value changes on mortgage loans using fair value hedge accounting under the EU carve out rule in the income statement (2018: EUR -/-11 million). This resulted in a higher carrying value of the mortgage loans.

This amount was offset by the fair value changes recognized on the derivatives used as hedging instrument. This offset is only possible when using the EU carve-out on hedge accounting as otherwise the hedge would not have been "highly" effective as required by IFRS. This means that profit (before tax) would have been EUR 12 million lower under IFRS as issued by the IASB (2018: EUR 6 million lower).

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

Fair value hedges	Accumulated amounts	
Macro fair value hedge	2019	2018
Carrying amount of the hedged item		
- Assets	2.444.842	2.534.166
- Liabilities	-	-
Accumulated amount of fair value adjustments on the hedged item		
- Assets	231.923	122.793
- Liabilities	-	-
Balance sheet line item - Loans	231.923	122.793
Changes in fair value of the hedged item for ineffectiveness assesment	**97.839**	**-458**

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

	Carrying amounts	
Fair value hedges		
Macro fair value hedge	2019	2018
Notional	2.862.895	3.533.663
Assets	8.816	2.837
Liabilities	278.656	191.993
Balance sheet line item - Derivatives	-269.839	-189.156
Changes in fair value used in calculating hedge ineffectiveness	**-97.993**	**-2.329**

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

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. Aegon N.V. recognizes that IBOR transitions potentially have implications for all reporting units, including its insurance, asset management and banking activities. In order to facilitate an orderly transition from the different IBORs to the new risk free rates Aegon N.V. has established for each region a project group led by the local CFO. Transition plans have been prepared by Aegon Nederland covering the impact on the business and operating models and include among others project solutions and actions, timelines and ownership to ensure timely preparation and implementation. We have identified a number of legal, financial, pricing, operational and conduct risks and are in the process of addressing these. We continue to analyse these risks and their evolution over the course of the transition. In addition we will continue to engage with industry participants on the transition while monitoring further transition guidance and insights from the different market working groups and regulators.

The majority of the fair value and cash flow hedges are directly exposed to changes in benchmark rates (predominantly Eonia, Euribor, and USD Libor), as it is not clear until when these benchmark rates will be continued and how they will transition to alternative rates. For example, the majority of financial instruments designated as fair value hedges have a maturity date beyond December 31, 2021 (Net notional amount: EUR 2,043 million). Aegon Hypotheken applies the reliefs offered in IAS 39 to ensure that this uncertainty does not result in the early termination of hedge accounting, whilst also assuming for measurement purposes that, owing to the general principle of equivalence, transitions to alternative rates will not result in significant contract modifications.

9. Other assets and receivables

	2019	2018
Investment debtors	878.273	377.614
Receivables from policyholders	3.541	2.719
Current account with group companies	-	291.320
Accrued interest	30.290	31.071
Current	**912.104**	**702.724**
At December 31	**912.104**	**702.724**

Included in investment debtors is a short term receivable to Dutch Mortgage Fund (DMF) of EUR 361 million (2018: EUR 65 million) in relation to the mortgages originated to the fund. For external fee partners an amount of EUR 137 million (2018: EUR 149 million) has been recognized. In the pipeline EUR 314 million (2018: EUR 140 million) has been recognized which is divided over internal and external investors according to an allocation process. Because of high demand from external parties at year-end 2018, the investment debtors were higher in 2019 compared to year-end 2018.

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

In the cash flow statement the movement in this account in the book year is disclosed the line items ‘Accrued income and prepayments’ (excluding the change of the ‘Current account with group companies’, as per year-end 2019 this item is included in the ‘Other liabilities and accruals’).

10. Equity

	2019	2018
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	171.313	154.366
At December 31	**191.331**	**174.384**

The authorized share capital of EUR 90,000 is divided into 90 shares of EUR 1,000 nominal value each, of which 18 shares have been issued and fully paid. Aegon Hypotheken paid dividend of EUR 3.5 million (2018: EUR 38.5 million).

11. Borrowings and group borrowings

	Note	2019	2018
Debentures and other loans	11	3.045.797	3.161.666
Loan Aegon N.V.		225.000	285.000
Loan Aegon Levensverzekering N.V.		710.000	810.000
At December 31		**3.980.797**	**4.256.666**
current		1.879.862	1.682.205
non-current		2.100.935	2.574.461
Total		**3.980.797**	**4.256.666**

Aegon Hypotheken’s funding arrangement with companies within the Aegon group consists of secured and unsecured borrowings from Aegon Levensverzekering and of a committed credit facility of EUR 500 million (EUR 225 million drawn (2018: EUR 285 million) as per December 31, 2019) from its ultimate parent company Aegon N.V..

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

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

11.1. Debentures and other long-term loans

in EUR millions	Coupon rate	Coupon date	Issue / maturity	FORD	Legal maturity date	31-12-2019	31-12-2018
EUR 1.367 million 'SAECURE 14' RMBS Note	floating	quarterly	2014 / 19	Jan. 2019	Jan. 2092	-	874
EUR 1.443 million 'SAECURE 15' RMBS Note	floating	quarterly	2014 / 20	Jan. 2020	Jan. 2092	918	1.038
EUR 875 million 'SAECURE 16' RMBS Note	floating	quarterly	2018 / 23	Oct. 2023	Oct. 2091	820	875
EUR 550 million 'SAECURE 18 NHG' RMBS Note	floating	quarterly	2019 / 25	Jul. 2025	Apr. 2092	491	-
Loan facilities warehouse mortgage loans	floating	monthly	- / 2022	-	-	333	181
Loan facility pre funding mortgage loans	floating	monthly	- / 2020	-	-	484	194
Total						**3.046**	**3.162**

Residential mortgage backed securities (RMBS)
The RMBS notes were issued under the Dutch Saecure program. The net proceeds were used to finance a part of the existing Dutch mortgage portfolio of Aegon Hypotheken. The expected maturity of the RMBS notes is derived from the FORD which stands for the first optional redemption date. At this date Aegon Hypotheken has the first right to repurchase the underlying mortgages from the special purpose entity (SPE). The legal maturity date of the RMBS notes is related to the underlying mortgage loans with the longest legal maturity. All these notes are fully collateralized by mortgage loans which are part of the investments of Aegon Hypotheken. SAECURE 14 has been repurchased at FORD in 2019.

On July 9, 2019, Aegon Hypotheken closed a transaction under the Dutch SAECURE program to sell Class A mortgage backed securities (RMBS). 'SAECURE 18 NHG' consists of EUR 550 million of class A notes with an expected weighted average life of 4.76 years and a coupon of 3 month Euribor plus 40bps.

Loan facilities warehouse mortgage loans
Committed financing takes place in a 'warehouse' structure for which a special purpose entity ('SPE'), Aegon Hypotheken Financiering B.V. ('Aegon Hypotheken Financiering'), has been incorporated. The interest to be paid is derived from Euribor rates with an additional spread.
At year-end of 2019, Aegon Hypotheken borrowed EUR 333 million via this warehouse structure (2018: EUR 181 million). Aegon Hypotheken has a total of undrawn external committed financing arrangements available for a period of more than one year of EUR 667 million (2018: EUR 1,269 million). A floating interest rate is applicable on these financing arrangements when drawn and a commitment fee when not.

Loan facility pre funding mortgage loans
Aegon Hypotheken entered into loan agreements with third parties for temporarily funding of mortgages. These loans are secured by pipeline mortgage loans provided by Aegon Hypotheken. These facilities are based on Euribor and additional spread for the drawn part and a commitment fee for the undrawn part. At year-end 2019 EUR 484 million (2018: EUR 194 million) has been drawn from EUR 1,000 million (2018: EUR 550 million) available under this facility.

12. Deferred tax

	2019	2018
Deferred tax assets	6.514	3.981
Deferred tax liabilities	-	-
Net deferred tax liability / (asset) at December 31	**-6.514**	**-3.981**

Movement in deferred tax

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

2018	Financial assets	Total
At January 1	-1.351	-1.351
Charged to income statement	-2.630	-2.630
At December 31	**-3.981**	**-3.981**

The deferred tax relates to financial assets (derivatives, base-adjustment from hedge accounting and fair value reserves on mortgage sales). 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. All deferred taxes are non-current.

13. Other liabilities and accruals

	2019	2018
Investment creditors	83.793	41.112
Income tax payable	8.733	9.815
Current account with group companies	49.888	-
Accrued interest	44.087	44.672
Other creditors	19.393	11.071
At December 31	**205.893**	**106.670**
Current	205.893	106.670
Non-current	-	-
Total	**205.893**	**106.670**

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

In the cash flow statement the movement in this account in the book year is disclosed the line items ‘Accrued expenses and other liabilities’ (including the change of the ‘Current account with group companies, as per year-end 2018 this item was included in the ‘Other assets and receivables’ and ‘Tax (paid) / received’.

14. Interest income

	2019	2018
Interest income calculated using the effective interest method	96.491	93.204
Total	**96.491**	**93.204**

	2019	2018
Interest income accrued on impaired financial assets	95	224
Interest income on financial assets that are not carried at fair value through profit or loss	96.491	93.204

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

15. Fee and commission income

	2019	2018
Administration fee income	89.174	78.826
Total	**89.174**	**78.826**

The services provided by the mortgage service center of Aegon Hypotheken B.V. include offering and management of mortgages as well as related bank and insurance products for other Aegon entities and external fee partners. For the services rendered to other Aegon entities and external fee partners, Aegon Hypotheken B.V. receives management fees. Of total fee and commission income EUR 89 million comprises fee income on financial assets and liabilities that are not at fair value through profit or loss (2018: EUR 79 million).

16. Results from financial transactions

	2019	2018
Realized gains / (losses) on financial investments	360	-
Net fair value change of derivatives	16.320	13.066
Total	**16.681**	**13.066**

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

	2019	2018
Loans	360	-
Total	**360**	**-**

Net fair value change of derivatives comprise:

	2019	2018
Net fair value change on economic hedges where no hedge accounting is applied	3.963	4.420
Ineffective portion of hedge transactions to which hedge accounting is applied	12.358	8.646
Total	**16.320**	**13.066**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2019	2018
Fair value changes mortgage loans recognized in income statement under the EU carve-out	97.838	-458
Offset amount of fair value changes recognized on derivatives used as hedging instrument	-97.993	-2.329
Total accounting ineffectiveness under the EU carve-out recognized in the income statement	**-154**	**-2.787**
Amortization of the base-adjustment	12.512	11.433
Total accounting hedge result	**12.358**	**8.646**

17. Commissions and expenses

	2019	2018
Administration expenses	95.703	88.603
Other	14.240	3.716
Total	**109.943**	**92.319**

Administration expenses and employee expenses

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

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

Remuneration Board of Directors

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

Members of the Board of Directors	2019	2018
Gross salary and social security contributions	2.830.360	2.810.534
Pension premium	337.611	303.019
Other benefits	433.793	419.870
Total	**3.601.765**	**3.533.423**

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

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

Mortgage loans Board of Directors
On the reporting date, the current members of the Board of Directors had mortgage loans totaling EUR 3,462 thousand from a company associated with Aegon Nederland (2018: EUR 4,058 thousand) at variable interest rates ranging from 2.09% to 2.80% (2018: 2.14% to 2.90%) in line with the terms and conditions available to the employees of Aegon Nederland. No mortgages were provided during the year (2018: EUR 1,738 thousand) and repayments amount to EUR 596 thousand (2018: EUR 664 thousand). No other loans, guarantees or advance payments exist.

17.1. Remuneration Independent Auditor

PricewaterhouseCoopers Accountants N.V. has served as Aegon Hypotheken's independent public auditor during 2019 and audited these financial statements. The fees for services rendered to Aegon Nederland need not be disclosed in this Annual Report, based on article 382a of Book 2 of the Dutch Civil Code. The aggregate fees for services rendered by PricewaterhouseCoopers Accountants N.V. to the whole group of Aegon N.V. are disclosed in the Annual Report of Aegon N.V.

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

Audit assignments

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

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

Audit-related assignments

- Assurance assignments other than assignments to audit or review historical financial information;
- Audit of internal control procedures;
- Audit of separate financial statements or audit of a specific element, account or item of a financial statement.

18. Impairment losses / (reversals)

The impairment losses of EUR 4 thousand (2018: a reversal of EUR thousand) relate to the mortgage portfolio.

19. Interest expenses

	2019	2018
Interest expenses calculated using the effective interest method		
Borrowings	3.221	10.941
Short-term liabilities and deposits	9.866	9.814
Total	**13.087**	**20.755**

	2019	2018
Other interest expenses	52.487	52.636
Total	**52.487**	**52.636**

	2019	2018
Interest charges accrued on financial assets and liabilities not carried at fair value through profit or loss	13.087	20.755

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

20. Income tax

	2019	2018
Current tax		
- current year	8.910	9.803
Deferred tax		
- origination / (reversal) of temporary differences	-2.204	-4.934
- changes in tax rates / bases	-329	2.304
Income tax for the period (income) / charge	**6.377**	**7.173**

The temporary differences relate mainly to financial assets.

Reconciliation between standard and effective corporate income tax:

	2019	2018
Income before tax	26.824	19.472
Income tax calculated using weighted average applicable statutory rates	6.706	4.868
Difference due to the effects of:		
- changes in tax rates / bases	-329	2.304
Income tax for the period (income) / charge	**6.377**	**7.173**

The weighted average applicable statutory tax rate for Aegon Hypotheken in 2019 and 2018 was 25%. In 2020 the applicable statutory tax rate is 25% and in 2021 and onwards will be 21,7%. The changes in the statutory tax rate have been taken into account in the (reversal of) deferred taxes.

21. Fair value of assets and liabilities

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

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

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

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

21.1. Fair value hierarchy

Aegon Hypotheken holds derivatives that are measured at fair value on a recurring basis. The derivatives, both assets and liabilities, both in 2018 and 2019 are considered Level II investments within the fair value hierarchy. During 2018 and 2019 there were no other financial assets or liabilities measured at fair value in the balance sheet of Aegon Hypotheken.

Significant transfers between Levels

Aegon Hypotheken's policy is to record transfers of assets and liabilities between Level I and Level II at their fair values as of the beginning of each reporting period. During 2018 and 2019 no amount of assets or liabilities was transferred from Level I to Level II, or transferred in or out of level III.

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

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

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

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

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

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

2018	At December 31		Level of fair value hierarchy		
	Carrying amount	Estimated fair value	Level I	Level II	Level III
Assets					
Mortgage loans	3.251.178	3.457.691	-	-	3.457.691
Private loans	19.276	21.138	-	44	21.093
Other	80	80	-	80	-
Liabilities					
Borrowings	3.161.666	3.161.666	-	-	3.161.666

21.2. Fair value measurement

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

21.2.1. Mortgage loans and private loans

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

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

21.2.2. Derivatives

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

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

Aegon Hypotheken normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA[2] master netting agreements to offset credit risk exposure. In the event no collateral is held by Aegon Hypotheken or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

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

21.2.3. Other borrowings

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

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

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

	2019		2018	
	Trading	Designated	Trading	Designated
Mortgage loans	-	231.923	-	122.793
Derivatives with positive values	290.786	8.816	220.405	2.837
Total financial assets at FVTPL	**290.786**	**240.739**	**220.405**	**125.630**

	2019		2018	
	Trading	Designated	Trading	Designated
Derivatives with negative values	335.870	278.656	252.143	191.993
Total financial liabilities at FVTPL	**335.870**	**278.656**	**252.143**	**191.993**

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

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

	2019		2018	
	Trading	Designated	Trading	Designated
Net gains and losses	-2.357	18.678	5.298	7.899

[2]International Swaps and Derivatives Associations

22. Commitment and contingencies

22.1. Investments contracted

In the normal course of business, Aegon Hypotheken has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2020. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the statement of financial position. Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages.

Per year-end 2019 Aegon Hypotheken has EUR 314 million (2018: EUR 140 million) on mortgage loans contracted purchases, which, according to an allocation process will be divided over internal and external investors in 2019. Refer also to note 9 ‘Other assets and receivables’.

Contracted sales	2019	2018
Mortgage loans	560.239	7.451

The sale of mortgage loans per year-end 2019 relates for EUR 551 million to committed purchases to group companies Aegon Bank and Aegon Levensverzekering; the remaining amount relates to pre-announced redemptions on mortgage loans.

22.2. Litigations and proceedings

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

GDPR

In 2019 a number of GDPR breaches occurred within Aegon Nederland, for further information refer to our disclosures in note 1.7 of the Report of the Board of Directors. In addition, non-compliance matters, mainly relating to the pensions and mortgages business, occurred within Aegon Nederland in 2019. Management has taken appropriate action to remediate the matters noted and to improve processes, procedures and controls where needed.

23. Transfers of financial assets

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

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

<u>Assets pledged</u>

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

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

As part of Aegon Hypotheken’s mortgage loan funding program, EUR 2.7 billion (2018: EUR 2.9 billion) have been pledged as security for notes issued. In relation to the group loans provided, Aegon Hypotheken pledged mortgage loans and pools of mortgage loans underlying to sub (e.g. junior) notes and subordinated loans in the warehouses held for own account for an amount of EUR 268 million (2018: EUR 338 million) for secured borrowings and pledged all its mortgage loans that are not already pledged otherwise to unsecured borrowings and revolving credit facilities.

24. Offsetting, enforceable master netting arrangements and similar arrangements

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

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

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

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

	Assets		Liabilities	
	2019	2018	2019	2018
Financial instruments in balance sheet				
Gross (=Net) amounts of financial instruments	299.602	223.242	614.526	444.135
Related amounts not set off				
- Financial instruments	299.602	223.242	299.602	223.242
- Cash collateral pledged (excluding surplus collateral)	-	-	314.923	220.893
Net amount at December 31	**-**	**-**	**-**	**-**

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

25. Group companies

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

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

- SAECURE 15 B.V. ('Saecure 15')
- SAECURE 16 B.V. ('Saecure 16')
- SAECURE 18 NHG B.V ('Saecure 18 NHG')

SAECURE 14 NHG B.V has been called at FORD in 2019 and was liquidated. The structured entities relate to the securitization of mortgage loans. The contractual agreements with these entities do not include provisions in which Aegon Hypotheken could be required to provide financial support in certain circumstances. Aegon Hypotheken has not provided, nor has intentions to provide, financial or other support without having a contractual obligation to do so.

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

26. Related party transactions

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

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

Aegon Hypotheken participates in the treasury and derivative valuation services of Aegon N.V. The interest rate swaps that Aegon Hypotheken uses to mitigate interest rate risk are concluded with Aegon Derivatives. Aegon Hypotheken has paid cash collateral on derivative positions via Aegon Derivatives, see also note 8 'Group loans'. The expenses are included in the charge from Aegon Nederland.

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

Except for the financing transactions listed above and sales transactions, the majority of the transactions with group companies run through Aegon Nederland and are settled through the current account with Aegon Nederland. At the end of the financial year, Aegon Hypotheken had a current account payable of EUR 232 million with Aegon Nederland (2018: current account receivable of EUR 118 million).

Aegon Hypotheken paid EUR 3.5 million dividend to Aegon Nederland in 2019 (2018: EUR 38.5 million).

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

Aegon Hypotheken has originated mortgages for Aegon Bank for a total amount of EUR 943 million (2018: EUR 1,315 million). During 2019 Aegon Hypotheken did not sell any mortgage loans to Aegon Bank (2018: nil).

At the end of the year, Aegon Bank had a current account liability to Aegon Hypotheken of EUR 77.3 million (2018: liability EUR 92.2 million). No interest is charged regarding this account liability.

Aegon Bank N.V. offers a 'Banksparen' mortgage product in cooperation with Aegon Hypotheken B.V. Aegon Hypotheken paid Aegon Bank EUR 5.1 million for this in 2019 (2018: EUR 3.6 million). The recharges are on normal commercial terms.

During 2019, Aegon Hypotheken originated mortgage loans for account of the Dutch Mortgage Fund/Dutch Mortgage Fund 2 and other funds, managed by Aegon Investment Management B.V., for in total EUR 4.3 billion (2018: EUR 4.7 billion).

During 2019, Aegon Hypotheken originated mortgage loans for account of Aegon Levensverzekering for an amount of EUR 1,095 million (2018: EUR 1,156 million).

27. Events after the reporting period

Since January 2020, the Coronavirus disease (COVID-19) outbreak is causing significant disruption to society, impacting Aegon Hypotheken, its suppliers and customers worldwide. Financial markets have been severely impacted by significant decreases in interest rates, equity markets and commodity prices. Governments and central banks worldwide are responding to this crisis with aid packages and further quantitative easing. At the date of this report the depth and length of this crisis is unknown.

Aegon Hypotheken is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its impact on Aegon Hypotheken. The most significant risks Aegon Hypotheken faces are related to interest rate risk (many of the mortgages Aegon Hypotheken grants are fixed rate while the financing contracts are based on floating rates), credit risk (main credit risk concentration is related to the mortgage loans) and liquidity risk (most assets and liabilities are of a long-term nature and will not create an unexpected short-term liquidity requirement). The notes to Aegon Hypotheken's financial statements include elaborate descriptions and related financial market sensitivities. At the date of this report it is too early to measure the impact of the COVID-19 outbreak.

However, regarding the interest rate risk Aegon Hypotheken has a hedging strategy in place and the capital position is sufficient to anticipate a negative interest movement. The COVID-19 outbreak is also likely to have an impact on the credit risk as the likelihood of customers with a mortgage loan getting into default increases. Although the impairment provision recognized in the outbreak of the last economic crisis was significantly higher than the Expected Credit Loss in the current financial statement, at the date of this report Aegon Hypotheken does not expect to have these impairment levels again due to the COVID-19 outbreak. This is among others due to the nature of the mortgage portfolio (average loan to value of 64,7%, 49,1% NHG guaranteed mortgages, new mortgage loans have a redemption element and therefore value at risk is declining over time) and at the date of this report the COVID-19 outbreak is not likely to have a significant impact on the value of the properties (mainly residential properties). The liquidity risk is not expected to be significantly impacted by COVID-19, since most of the funding is backed by long-term loans and committed loan facilities (also refer to note 11.1 in the consolidated financial statements) that cannot be immediately withdrawn from by external funding parties. In addition, there are enough facilities in place to refinance the short-term funding of EUR 1.8 billion.

Because of the far-reaching measures governments around the world are taking to control the impact of this pandemic we expect the sale of new business to be impacted by these measures. At the date of this report it is too early to tell what the impact of these measures will be on our new mortgage production. However, at the date of this report we did not anticipate a decline in the production of new mortgage loans nor in the funding from external parties.

Aegon Hypotheken has invoked its business continuity plans to help ensure the safety and well-being of its staff, as well as its capability to support its customers and maintain its business operations. Although, as described above, the uncertainties associated with the COVID-19 outbreak are high and it is not currently possible to estimate future effects, we believe that based on current insights, no material uncertainty relating to going concern exist and therefore the going concern assumption used in preparing the financial statements is appropriate.

Except for the Coronavirus disease outbreak, there are no other post reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

28. Approval of the consolidated financial statements

The consolidated financial statements of Aegon Hypotheken for the year ended 31 December 2019 were approved by the Board of Directors on April 8, 2020.

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

The Board of Directors have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Board will authorize the Chairman to sign the annual accounts on their behalf. The Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Board Members are not present as covered by article 2:210 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Board of Directors,

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

Financial statements 2019 of Aegon Hypotheken B.V.

Report of the Board of Directors

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

Statement of financial position

(before profit appropriation)

Amounts in EUR thousand	Note	31-12-2019	31-12-2018
Non current assets			
Financial fixed assets			
Loans	3	3.194.579	3.270.750
Derivatives	4	280.267	134.746
Long term loans and group loans	5	768.261	697.626
		4.243.106	**4.103.122**
Current assets			
Receivables			
Deferred tax assets	6	6.514	3.981
Other assets and receivables	7	912.104	702.724
		918.618	**706.705**
Cash and cash equivalents	8	120.565	127.630
Total assets		**5.282.289**	**4.937.457**
Equity	9		
- Share capital		18	18
- Share premium		20.000	20.000
- Retained earnings		150.866	142.066
- Net income / (loss)		20.441	12.300
Total equity		**191.325**	**174.384**
Non current liabilities			
Derivatives	5	595.190	355.640
Borrowings and group borrowings	10	4.289.874	4.300.709
		4.885.064	**4.656.349**
Current liabilities			
Other liabilities and accruals	11	205.900	106.724
Total liabilities		**5.090.964**	**4.763.073**
Total equity and liabilities		**5.282.289**	**4.937.457**

Income statement

(for the year ended December 31, 2019)

Amounts in EUR thousand	2019	2018
Other income / (loss) after tax	20.441	12.300
Net income / (loss)	**20.441**	**12.300**

Notes to the financial statements

1. General information

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

2. Summary of significant accounting policies

2.1. Basis of preparation

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

A reference is made to Note 2 ‘Summary of significant accounting policies’ of the consolidated financial statements for the description of the accounting policies applied.

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

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

2.2. Group companies

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

3. Loans

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

4. Derivatives

Certain derivative positions closed between Aegon Hypotheken and the Special purpose entities (‘SPE’s’) Saecure 15 and Saecure 16 are recognized in the consolidated financial statements, but cannot be recognized in the company financial statements of Aegon Hypotheken. This is due to the fact that the mortgage loans transferred to the SPE’s are not derecognized in the financial statements. The derivatives that have prevented the derecognition are therefore not recognized. This is resulting in a difference with the consolidated financial statements. There are no other differences. Refer to note 8 ‘Derivatives’ of the consolidated financial statements for more information.

5. Long term loans and group loans

	2019	2018
Loan Aegon Derivatives N.V.	459.183	331.819
Loan Aegon Hypotheken Financiering B.V.	70.823	76.290
Loan Saecure 14, 15, 16 and 18 NHG	238.255	289.517
At December 31	**768.261**	**697.626**
current	583.883	421.235
non-current	184.378	276.390
Total	**768.261**	**697.626**

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

The loan to Aegon Hypotheken Financiering relates to the warehouse structure for mortgage loans and is subordinated. Aegon Hypotheken's funding structure consists of secured and unsecured borrowings from Aegon Levensverzekering. Refer to note 10 'Borrowings and group borrowings' for more information.

The Saecure loans pertain to the cash deposits held in the SPEs as pledge. In 2019 the mortgages from SAECURE 14 were repurchased at FORD and this loan was repaid; furthermore SAECURE 18 NHG`was issued in 2019.

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

6. Deferred tax

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

7. Other assets and receivables

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

8. Cash and cash equivalents

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

9. Equity

	2019	2018
Share capital	18	18
Share premium	20.000	20.000
Retained earnings	150.866	142.066
Net income / (loss)	20.441	12.300
At December 31	**191.325**	**174.384**

2019	Share capital	Share premium	Retained earnings	Net income / (loss)	Total
At January 1	**18**	**20.000**	**142.066**	**12.300**	**174.384**
Net income prior year retained	-	-	12.300	-12.300	-
Net income current year	-	-	-	20.441	20.441
Total net income / (loss)	**-**	**-**	**12.300**	**20.441**	**32.741**
Dividend paid on common shares	-	-	-3.500	-	-3.500
Equity changes from relation with shareholder	**-**	**-**	**-3.500**	**-**	**-3.500**
At December 31	**18**	**20.000**	**150.866**	**20.441**	**191.325**

2018	Share capital	Share premium	Retained earnings	Net income / (loss)	Total
At January 1	**18**	**20.000**	**150.380**	**29.986**	**200.384**
Effect of change in accounting policy	-	-	199	-	199
Restated balance as at January 1	**18**	**20.000**	**150.579**	**29.986**	**200.583**
Net income prior year retained	-	-	29.986	-29.986	-
Net income current year	-	-	-	12.300	12.300
Total net income / (loss)	**-**	**-**	**29.986**	**-17.686**	**12.300**
Dividend common shares	-	-	-38.500	-	-38.500
Equity changes from relation with shareholder	**-**	**-**	**-38.500**	**-**	**-38.500**
At December 31	**18**	**20.000**	**142.066**	**12.300**	**174.384**

The effect of change in accounting policies as at January 1, 2018, is the result of the adoption of IFRS 9 by Aegon Hypotheken in the consolidated financial statements.

10. Borrowings and group borrowings

	2019	2018
Loan Aegon N.V.	225.000	285.000
Loan Aegon Levensverzekering N.V.	710.000	810.000
Loan Saecures	2.494.752	2.782.519
Loan Aegon Hypotheken Financiering B.V.	376.123	229.190
Loan facility pre funding mortgage loans	484.000	194.000
At December 31	**4.289.874**	**4.300.709**
current	2.004.562	1.215.757
non-current	2.285.312	3.084.952
Total	**4.289.874**	**4.300.709**

Refer to note 11 ‘Borrowings and group borrowings’ of the consolidated financial statements for more information. The ‘Loan Saecures’ are accounted as payable to the SPEs (Aegon Hypotheken Financiering, Saecure 14, Saecure 15, Saecure 16, and Saecure 18) because, under IFRS, the mortgage loans sold to the SPEs continue to be recognized on the balance sheet of Aegon Hypotheken (no ‘derecognition’), as only the legal title has transferred to the SPE. Beneficial ownership of the portfolio remains with Aegon Hypotheken after sale of the mortgage loans.

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

11. Other liabilities and accruals

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

12. Remuneration Directors

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

13. Remuneration Independent Auditor

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

14. Commitments and contingencies

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

15. Related party transactions

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

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 15. The recharge amounts to EUR 45.7 million (2018: EUR 50.0 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 1,667 thousand (2018: EUR 1,863 thousand). The amounts not paid to external note holders are recharged from Saecure 15 to Aegon Hypotheken. The amount recharged was EUR 42.9 million (2018: EUR 47.9 million).

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 16. The recharge amounts to EUR 30.2 million (2018: EUR 5.2 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 1,421 thousand (2018: EUR 200 thousand). The amounts not paid to external note holders are recharged from Saecure 16 to Aegon Hypotheken. The amount recharged was EUR 21.5 million (2018: EUR 4.0 million).

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to Saecure 18. The recharge amounts to EUR 13.2 million. Aegon Hypotheken receives a fee for servicing the mortgages of EUR 433 thousand. The amounts not paid to external note holders are recharged from Saecure 18 to Aegon Hypotheken. The amount recharged was EUR 12.4 million.

Aegon Hypotheken receives interest on mortgages from customers, which are transferred to a warehouse. The recharge amounts to EUR 24.9 million (2018: EUR 26.9 million). Aegon Hypotheken receives a fee for servicing the mortgages of EUR 36 thousand (2018: EUR 36 thousand). The amounts not paid to external note holders are recharged from a warehouse to Aegon Hypotheken. The amount recharged was EUR 19.7 million (2018: EUR 20.2 million).

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

16. Events after the reporting period

Except for the Coronavirus disease outbreak (refer to note 27 'Events after the reporting period' of the consolidated financial statements), there are no other post reporting date events and expectations that have not already been taken into account in the directors' report or financial statements.

17. Proposal for profit appropriation

A proposal will be put to the General Meeting of Shareholders to appropriate the result for the financial year of EUR 20 million to the retained earnings. This proposal has not yet been incorporated in the financial statements.

The financial statements of Aegon Hypotheken for the year ended 31 December 2019 were approved by the Board of Directors on April 8, 2020.

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.

The Board of Directors have agreed in their meeting on March 30, 2020 that due to the Covid-19 health measures in force in April 2020, preventing in-person meetings, the Members of the Board will authorize the Chairman to sign the annual accounts on their behalf. The Board Members fully agree with the contents of the annual report, and a record of this meeting and the individual agreement of the Board Members is kept by the Secretary of the Board. Therefore, the signatures of the Board Members are not present as covered by article 2:210 section 2 of Book 2 of the Dutch Civil Code.

The Hague, April 8, 2020

The Board of Directors,

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

Other information

Statutory provisions regarding profit appropriation

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

Article 17 Profit and distributions

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

Independent auditor's report

Independent auditor's report

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

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of Aegon Hypotheken B.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at December 31, 2019, and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

- the company financial statements of Aegon Hypotheken B.V. ('the Company') give a true and fair view of the financial position of the Company as at December 31, 2019, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying 2019 financial statements of Aegon Hypotheken B.V., Den Haag. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity as well as the consolidated cash flow statement; and
- the notes comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the income statement for the year then ended;
- the notes comprising the accounting policies applied and other explanatory information.

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

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The basis for our opinion

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

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

Independence

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

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit are:

In respect of fraud:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient and 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 of 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. We refer to the section Risk management’ of the financial statements where the Board of Directors has included their perspectives on fraud risk.

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. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

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, and finally we incorporated elements of unpredictability in our audit. We refer to the key audit matters on valuation of insurance contracts and certain investments, that are examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgments.

We have performed an assessment of matters reported on the (Group's) whistleblowing procedures with the entity and results of management's investigation of such matters.

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 operating aspect of the business, to the Group's ability to continue its business or to avoid material penalties. For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations that have an indirect impact on the financial statements, such as anti-money laundering and anti-terrorist financing regulations, as well as regulations linked to the operating licenses for the group's activities.

Emphasis of matter - uncertainty related to the effects of the corona virus (COVID-19)

We draw attention to Note 27 in the consolidated financial statements and Note 16 in the company financial statements in which the Board of Directors has described the possible impact and consequences of the corona virus (COVID-19) on the company and the environment in which the company operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

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; 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 Report of the Board of Directors and the Other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Directors

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

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 8 April 2020
PricewaterhouseCoopers Accountants N.V.

Original signed by: A.R. Vermeulen RA MSc

Appendix to our auditor's report on the financial statements 2019 of Aegon Hypotheken B.V.

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

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

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

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

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

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